

By the Office of Business Economics

# Economic Recovery Under Way . . .

## A Review of 1958

**B**USINESS recovery was marked in the second half of the year, following promptly after the recession bottomed out during the second quarter. By the end of the year, the physical volume of national output had regained its previous peak and the value in current dollars was higher.

With the second-half advance in business activity, gross national product for the year 1958 nearly matched 1957 output in dollars, and was within 3 percent of it in real terms.

In the 1957-58 recession, the sharpest of the three experienced in the past decade, the economy again displayed strong resistance to deflationary forces. Although weaknesses are still apparent in some markets at yearend, the national economy enters 1959 on the rising phase of a cyclical movement.

### Dimensions of the recovery

The upswing in demand during the latter part of 1958 carried GNP to a fourth quarter annual rate of \$453 billion. This was \$26 billion above the first quarter low, and \$7½ billion higher than the prerecession peak reached the summer before.

This \$7½ billion rise was associated with an upward movement in prices of final products. In real terms, the overall pace of production about matched that maintained during the four quarters which preceded the downturn of late 1957.

The price advance occurred mainly during the downward phase of the business cycle. The price level having shown relatively little change in the second half-year, virtually the entire 6½ percent recovery in the value of GNP from the recession low represented gains in the real volume of output. (See chart on page 2.)

### Fiscal and monetary setting

Fiscal and monetary factors operated to sustain the economy during the first half, and played a significant role in the course of the second half also.

Fiscal developments, as stressed in the Survey during the year, helped maintain the current flow of purchasing power to consumers despite the shrinkage of earnings which accompanied the production drop. This was reflected in the \$290 billion consumer market by a series of quarterly increases in purchases—aside from autos—throughout the year.

Income was protected mainly through an enlarged volume of unemployment insurance benefits and other social security payments. Contributing also was the disbursement of corporate dividends at close to the same rate in the first half—when pretax earnings approximated \$32 billion at annual rates—as at the prerecession peak when profits had

been higher by more than \$10 billion. The impact of this reduction in profits was divided about equally between government revenues and retained corporate earnings. In the particular economic setting in which they occurred, these declines seem to have had little effect on government or corporate demand.

Reflecting these stabilizing elements, disposable income stopped \$10 billion short of matching the percentage decline of GNP from peak to trough. In the subsequent recovery, dividends continued essentially stable despite the rise in profits, and transfer payments leveled out though remaining as a substantial factor in consumer buying power throughout the year. Thus, the flow of disposable income was stabilized during the upward phase of the cycle also, with the differential movement again amounting to around \$10 billion.

### Credit policies

The second half of last year also contrasted with the first in respect to the monetary and credit policies of the Federal Government. During the business downswing, steps were taken to ease the supply of bank and home mortgage credit.

In the field of bank credit, the monetary authorities cut discount rates and reserve requirements, and engaged in open market operations which offset the effects of a substantial flow of gold abroad. Under these circumstances, concern for liquidity as such never became an important factor in the business downturn; the liquidation of inventories and trade credit that occurred was a reflection of the changing demand picture rather than of financial stress, and proceeded in an orderly fashion which left property values firm.

To ease home mortgage credit, restrictions on the eligibility of loans for government insurance and guarantees were relaxed, and \$1 billion was made available for the support of the secondary mortgage market. Both these steps served to reassure lenders as to the liquidity of loan portfolios, thus encouraging new lending. In addition, the easing of eligibility requirements increased the number of potential borrowers; and the purchases made in the secondary market had a direct effect in freeing private funds for the acquisition of new mortgage paper.

With these various Federal policies operating to facilitate the meeting of borrowers' needs, and the financial requirements of business for investment purposes declining, a general softening of interest rates resulted. Yields on corporate and government bonds and short-term obligations moved down, and a similar tendency was evident in the terms of residential mortgage lending.

Toward midyear, credit conditions stiffened and the fall in interest rates was sharply reversed. Contributing to this turnaround was a shift in market expectations which

has been evident also in a rise of stock prices. Important too was an increase in the demand for funds, associated in particular with Federal financing and with the expanded volume of residential construction.

In the business recovery the Federal Government has acted in the direction of credit restraint. The previously easy reserve position of the member banks was allowed to tighten, while advances in rediscount rates and margin requirements signalled the increasing concern of the monetary authorities with the problem of inflation. The commitment of Federal funds for the purchase of home mortgages ceased as the resources provided by the special authorization were used up. The effect of these purchases and of other Federal actions to stimulate residential building, however, is still a factor in the current volume of construction activity.

### Market expansion since mid-1958

In this setting of stabilizing forces, economic activity recovered at a vigorous rate both in the summer and autumn quarters. Of the \$26 billion annual-rate increase in gross national product from the first quarter low, \$22½ billion occurred after midyear.

The tapering of inventory liquidation added about \$6½ billion to the total demand for new production in the second half, at annual rates. In part this improvement reflected completion of planned adjustments in inventory-sales ratios in various lines. In part it was due to a shift in the business outlook as the strength of the forces sustaining the economy became clearer.

Important among these forces was the uptrend in government purchases. The continued advance in State and local expenditures was reinforced after the first quarter by a series of moderate increases in Federal defense outlays, which during the period of business contraction had been down somewhat from the levels of mid-1957. Also contributing to the rise of Federal spending in the second half was the step-up in farm price support activity.

Comparable in dollar magnitude to the expansion of final demand from government was the upsurge in residential construction which accompanied and followed the easing of credit conditions described above.

All these market developments were reflected in the growth of consumers' income from production, and helped stimulate demand for consumer goods and services. In total, the growth of such demand accounted for about \$8 billion of the second-half rise in the annual rate of GNP.

The steady uptrend of consumer expenditures for services continued in the second half of the year, as did the advance in purchasing of nondurable goods. Consumer durables, after having fallen off considerably in the recession, showed signs of recovering. In the dynamic auto segment, the production increase reflected not only some rise in current demands for new cars but also a buildup—largely seasonal—in dealer stocks of the 1959 models.

Weakness continued in export markets and in business fixed investment. Here declines from 1957 peaks had been important factors in the recession. Since last spring fixed capital outlays have shown little change, and net exports have drifted lower.

### National income and corporate profits

The effects of the recovery on the industrial structure of production are apparent from the shifts since midyear in the national income. The upswing in demand during the second half having focused on lines which produce and distribute commodities, the industrial incidence of the income rise was largely in manufacturing, mining, and transportation. Wholesale and retail trade were also benefited by the

improvement in the demand for goods, while the industries associated mainly with the rendering of final services continued their previous growth.

By type of income, the pattern of last year's expansion has been broadly similar to that experienced in the recovery phase in other recent cycles. The major increases have been in payrolls and in profits. Matching their relatively sharp drop when business was declining, profits have shown a comparably rapid advance in the second half.

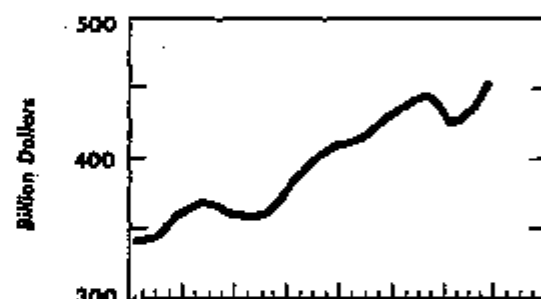
### Current position and prospect

Market and income developments since mid-1958 have placed the Nation's economy in a position which may be summarized as follows.

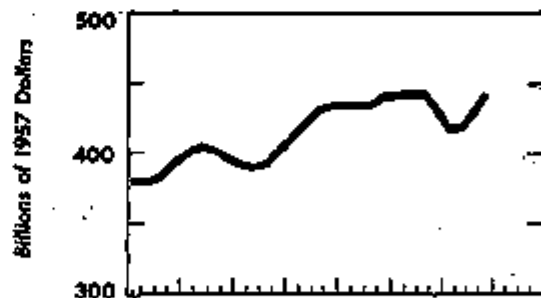
The cyclical upswing now in progress has canceled the declines of late 1957 and early 1958, and has shown considerable vigor. The price level recently has held stable in the face of the improvement of final demand, with limited advances in prices of industrial goods being offset by reductions for farm products.

Consumption is at an alltime high, in volume as well as in value, and consumer demand continues responsive to basic

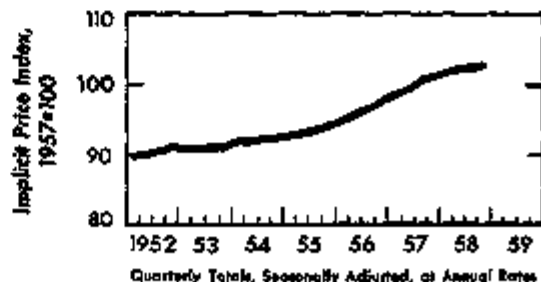
#### GNP reached dollar peak at yearend . . .



#### as output volume recovered and



#### prices moved on a plateau



Quarterly Totals, Seasonally Adjusted, at Annual Rates

growth trends as well as to the expanding flow of income. Autos remain a question mark for 1959. Sales to final users of 1959 cars have through January been higher than those recorded a year earlier, but the overall strength of demand for 1959 cars is not yet clear.

Table L.—Key National Income and Product Data, 1957 and 1958  
(Billions of dollars)

	1957	1958	Seasonally adjusted at annual rates		
			1957	1958	
			III	I	IV
Gross national product in constant (1957) dollars.....	449.3	427.6	442.4	439.3	441.2
Implicit price index.....	140.8	142.4	140.7	141.9	143.7
Gross national product.....	449.3	437.7	445.6	427.1	453.9
Personal consumption expenditures.....	261.4	260.6	268.3	265.2	265.9
Autos and parts.....	17.1	14.1	17.3	15.6	15.9
All other.....	207.3	238.5	271.0	272.6	250.0
Gross private domestic investment.....	65.3	54.4	66.7	50.9	61.6
Residential construction.....	17.0	17.6	16.9	17.1	20.1
Business fixed investment.....	47.4	41.3	47.6	42.0	41.5
Change in business inventories.....	1.0	-4.7	2.2	-3.3	.0
Net exports of goods and services.....	4.9	1.4	4.8	1.7	.4
Government purchases.....	55.7	61.2	54.9	58.3	61.2
National income.....	364.4	360.5	368.7	361.7	N.A.
Compensation of employees.....	264.6	253.8	257.3	250.9	263.4
Corporate profits <sup>a</sup> .....	41.9	36.2	43.1	31.3	N.A.
All other.....	67.5	70.5	68.3	69.5	71.2
Disposable personal income.....	345.1	311.6	346.7	34.61	316.3

<sup>a</sup> Before tax, and including inventory valuation adjustment.

Source: U. S. Department of Commerce, Office of Business Economics.

Residential construction activity, now above the 1955 peak in value, will move higher as work proceeds on the near-record volume of new starts reported for recent months. The experience of 1958 has conformed to that of earlier postwar cycles in that housing demand responded on a considerable scale to shifts in the availability of mortgage credit. Over an extended period, of course, this market depends in the main on more basic factors.

Business demand is clearly an expansionary element in the situation as far as inventories are concerned. In all previous postwar experience, when heavy liquidation has tapered and terminated as it did toward the turn of the year, a swing to accumulation has followed. This observed sequence, of course, has occurred against a background of expansion in final demand in each case.

Business outlays for fixed investment have not yet shown much sign of recovering from the slide which ended around mid-1958. Programs reported late last year for the current quarter indicated little increase. The dimensions of the recent upswing in profits and general business activity may be expected to influence 1959 plans, which will be covered in our annual survey in next month's issue.

In the government market, the sustained growth of State and local buying continues, and may be counted on to play a positive role in the demand situation for 1959 as construction outlays and employee compensation increase further.

The outlook for Federal expenditures depends upon Congressional action on the Budget for the fiscal year which begins next July. The President's Budget message sent to Congress last month contemplates little increase beyond the current rate in purchases of goods and services or in transfer

payments. Subsidies, interest payments and grants-in-aid to the States are budgeted to rise somewhat from present levels. Federal disbursement of loan funds under the 1958 Emergency Housing Act and other programs is to taper off; the reduction in total expenditures proposed in the Budget reflects largely the decline in such disbursements.

## Income and Purchasing

The dollar flow of purchasing power to consumers established a record in 1958, a moderate decline around the beginning of the year having been more than offset by advances since last spring.

Nearly all of the income swing reflected changes in earnings of labor and of business proprietors, which are closely tied to current rates of productive activity. Dividends and interest were about stable. The counter-cyclical rise in Government transfer payments moderated substantially the impact of the production cycle on consumer purchasing power; these payments remained high through most of the year.

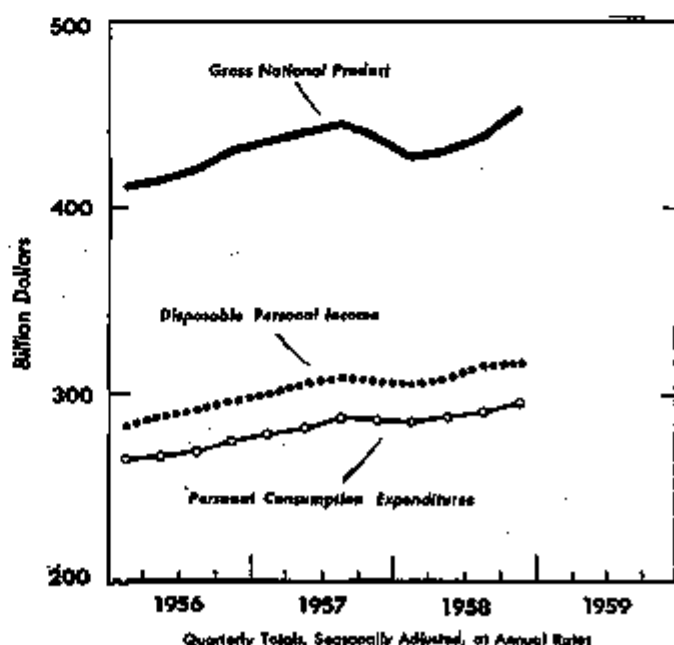
Mirroring the course of disposable income, consumer spending rose 2 percent to a record \$290½ billion for the year. The increase from 1957 about matched that in prices; the real volume of consumption was unchanged.

Expenditures for most types of goods had dipped with the contraction of income toward the end of 1957. Services continued to expand in this period, however, and nondurables spending resumed its advance as 1958 opened. Durable goods buying remained low through the first half and recovered only partially in the second.

Among the major consumption items within these broad categories, the drop in autos was conspicuous; the recession was also apparent in sales of household furnishings and equipment and in clothing. The course of food purchases

## GNP and Disposable Personal Income

Maintenance of consumer buying power and spending limited the recession



U. S. Department of Commerce, Office of Business Economics

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was markedly influenced by price movements. Spending for most other major items continued its past growth, though at a slackened pace.

### Buying of durables

A sharp contraction occurred in the new auto market at the opening of last year and sales remained low until the 1959 models were introduced in the fall. For 1958 as a whole, consumer purchases of autos and parts totaled \$14 billion—nearly a fifth below 1957 and the lowest since 1954. Following the introduction of the 1959 cars, consumer expenditures rose. The rise in sales was accompanied by a continuation of the recent shift towards smaller and more economical cars.

Demand for household furniture and equipment fell much less than auto sales. A decline ending around midyear was reversed in the second half; the total for 1958 approached those of 1956 and 1957 both dollarwise and in real terms.

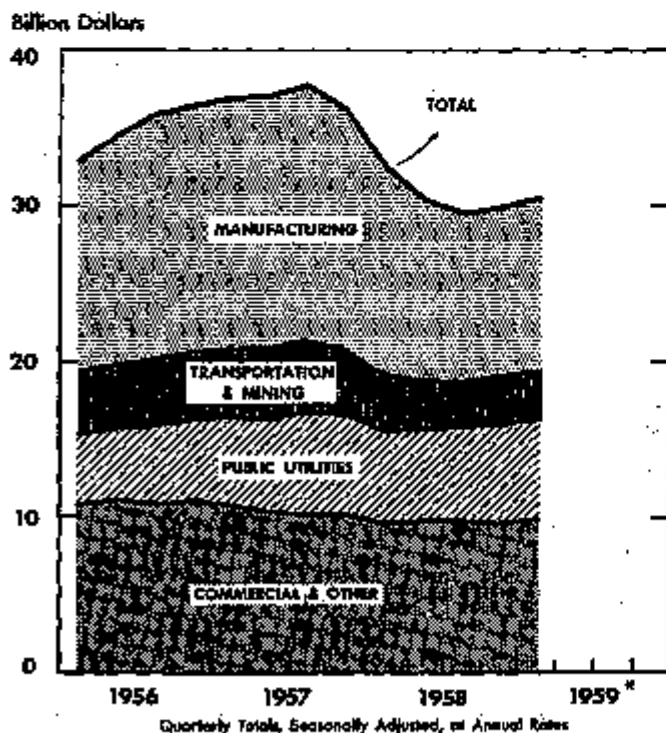
### Food and services

Among the nondurables, relatively long-lived items such as apparel and semidurable housefurnishings showed marked conformity to last year's shifts in the general economic situation. Like expenditures for household durables, outlays for these goods recovered after mid-1958, and reached totals in line with those of the previous two years.

Food spending rose substantially in the first half, as consumers about maintained their real purchases in the face of price advances. Supply conditions seem to have played an important role in the course of prices; these conditions eased in the second half, and the rise in consumer outlays was checked as prices turned down.

## Plant and Equipment Expenditures

were cut sharply



\* First quarter anticipated by business

Date: DEC 8 1958

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Spending for services continued to advance throughout the year. Growth in these outlays accompanied a general uptrend in prices and rates. In addition, a sustained upward movement in the real volume of service consumption has been associated with the rise in population and number of households.

### Personal finance

Personal saving slowed a little as income declined during the recession, but for the year as a whole was close to the 1956 and 1957 amounts.

The largest single addition to the asset side of the balance sheet for individuals was the purchase of new dwellings. Though mortgage credit was used more intensively than in 1957, equity in individually owned housing continued to rise.

Expansion in installment debt, which has been a substantial offset to saving in most of the postwar period, was negligible last year as auto purchases declined. This shift occurred in the face of relatively easy credit conditions.

Individuals added considerably to their liquid asset holdings, most of the increase taking the form of bank deposits and savings and loan association shares. Saving through private insurance and pension plans continued its steady growth.

## Investment Demand Mixed

Developments in the general field of investment demand played a key role in the 1957-58 business cycle, as in other such swings in the past. The various types of investment, however, moved in very diverse ways.

Residential construction was an important source of economic strength last year. Its 4½ percent advance from 1957 reflected an expansionary tendency in the second half. Relatively favorable credit conditions were an important factor in this trend, which is analyzed in detail elsewhere in this issue.

### Plant and equipment expenditures down

Investment in nonresidential construction and producers' durable equipment totaled \$41½ billion—\$6 billion under the record 1957 figure. Investment began to drop in the fourth quarter of 1957, and fell substantially further in the early part of 1958 before leveling out in the second half. The cutback was more severe than that in the 1953-54 recession, but not much different from the 1948-49 drop.

Last year's slide followed a two-year investment boom. The intensity and pervasiveness of this boom were such that virtually every major industry added new production capacity at a rate that could not be supported by current demand. With the uptrend in such demand flattening as 1957 passed, the need for expansion lessened.

As in previous cycles, the course of the decline in investment has varied widely among industries. Expenditures by railroads were almost halved from 1957 to 1958; and those of manufacturing and mining concerns were cut about one-fourth. Public utilities as a group nearly maintained their 1957 investment, as did commercial enterprises. (See chart.)

### Manufacturers' cutbacks large

The reduction in manufacturers' capital outlays was only slightly sharper for durables as a group than for nondurables. Among the durable goods industries, cuts were most pronounced in primary nonferrous metals and motor vehicles; each reduced outlays by almost one-half. (See table.)

Declines in the machinery industries and in several groups producing construction materials were much less sharp.

Among the nondurables, decreases of around 30 percent occurred in the textile, paper, and rubber industries and in petroleum. The petroleum companies' cutback was the largest for this industry in the postwar period and the first since 1949. Oil well drilling bore the brunt of the reduction. The improved demand and inventory situation in the latter part of last year was a favorable element in the investment outlook.

Manufacturers of consumers' soft goods, enjoying a fairly well maintained demand for their products, made the smallest relative reductions among the nondurables.

### Investment outside manufacturing

The railroad and mining industries, having shared the market experience of manufacturers, reduced their capital outlays substantially last year. The cut in railroad equip-

ment purchases was particularly heavy. Spending by non-rail transportation companies was reduced only moderately, and large programs for jet-aircraft procurement by airlines are a major feature of the equipment market.

Only limited fluctuations occurred in the markets served by the public utilities and the commercial group. These industries continued their programs of expansion to provide for the growth of demand. Electric utilities set a new record for the year; investment by gas companies was scaled down early in 1958 but resumed a sharp upward trend by mid-year. Suburban development was a factor in maintaining trade firms' outlays close to peak rates.

### Inventories contribute to business swing

Business inventories were reduced \$5 billion in 1958 following an accumulation of \$1 billion a year earlier. Measured from the third-quarter 1957 peak to the first-quarter 1958 trough, the swing was much larger.

Liquidation of stocks began in the fourth quarter of 1957, after a period in which demand for a wide range of products had ceased to expand or had weakened and government and private orders and other forward indicators of business had turned unfavorable. Final demand being relatively well maintained, the adjustment of inventory holdings proceeded rapidly and in orderly fashion in the first and second quarters of 1958. In the second half of the year the business situation firmed and improved, and inventory liquidation tapered as production was stepped up to service an increasing portion of sales. The accompanying rise in earnings reinforced the business recovery.

### Durable goods inventories

The pattern of inventory adjustment reflected the overall business swing not only in timing but in product and industry composition as well. Liquidation centered in holdings of durable goods and, by industry, in manufacturing. These characteristics emerge clearly from the accompanying chart.

The reduction of inventories in the durable goods manu-

Table 2.—Expenditures on New Plant and Equipment by U.S. Business,<sup>1</sup> 1956-58

(Millions of dollars)

	1956	1957	1958 <sup>2</sup>
<b>Manufacturing.....</b>	<b>14,954</b>	<b>15,929</b>	<b>13,590</b>
Durable-goods industries.....	7,624	8,022	5,519
Primary iron and steel.....	1,266	1,722	1,223
Primary nonferrous metals.....	413	814	429
Electrical machinery and equipment.....	603	599	448
Machinery, except electrical.....	1,878	1,378	848
Motor vehicles and equipment.....	1,489	1,538	577
Transportation equipment, excluding motor vehicles.....	440	544	358
Stone, clay, and glass products.....	586	572	403
Other durable goods.....	1,447	1,438	1,167
Nondurable-goods industries.....	7,331	7,907	8,060
Food and beverages.....	799	830	741
Textile-mill products.....	465	408	290
Paper and allied products.....	801	811	580
Chemicals and allied products.....	1,455	1,794	1,338
Petroleum and coal products.....	3,135	3,453	2,415
Rubber products.....	201	200	140
Other nondurable goods.....	475	401	436
<b>Mining.....</b>	<b>1,241</b>	<b>1,243</b>	<b>925</b>
<b>Railroads.....</b>	<b>1,231</b>	<b>1,316</b>	<b>785</b>
<b>Transportation, other than rail.....</b>	<b>1,712</b>	<b>1,711</b>	<b>1,505</b>
<b>Public utilities.....</b>	<b>4,895</b>	<b>6,195</b>	<b>6,105</b>
<b>Communications.....</b>	<b>2,684</b>	<b>3,832</b>	<b>5,737</b>
<b>Commercial and other<sup>3</sup>.....</b>	<b>5,384</b>	<b>7,345</b>	<b>6,737</b>
<b>Total.....</b>	<b>35,961</b>	<b>46,962</b>	<b>39,527</b>

1. Data exclude expenditures of agricultural business and outlays charged to current account.

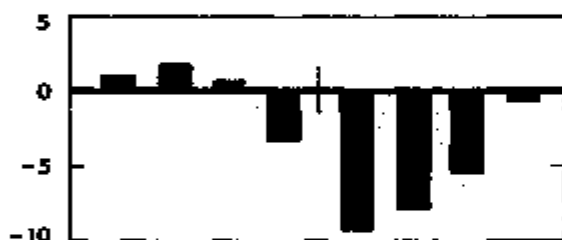
2. Includes anticipated expenditures for fourth quarter 1958.

3. Includes trade, service, finance, and construction.

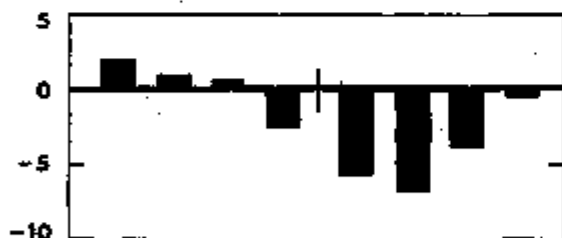
Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.

### The Swing in MANUFACTURING AND TRADE INVENTORIES\*

Billion Dollars



### was concentrated industrially in MANUFACTURING



### and by type of holding, in DURABLE GOODS



Quarterly Changes, Seasonally Adjusted, at Annual Rates

\* Including inventory valuation adjustment

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facturing industries followed a downtrend in sales and new orders which had persisted since the turn of 1956-57. New orders reached their lowest point in the opening quarter of 1958 and increased thereafter, with shipments following closely. The liquidation of stocks, however, continued unabated in the second quarter and did not start to taper off until the third.

Principal contributors to the general inventory swing were the aircraft and motor vehicle groups and the machinery industries. The decline in activity of these important metal users led to reductions also in the sales and stocks of metals producers. By yearend inventory movements were leveling out in all these industries.

By stage of fabrication, the bulk of the cutback occurred in purchased materials and goods in process. From mid-1958 on, however, these stocks tended to stabilize and the further declines were mainly in finished goods.

With sales showing improvement after mid-1958, and inventory holdings markedly reduced, stock-sales ratios improved. In the last quarter the overall ratio was the lowest in two years.

In nondurable goods manufacturing, where inventory changes were much more moderate, the principal declines were in foods, petroleum, chemicals, and tobacco. In the case of petroleum products particularly, the cutback involved an adjustment to developments in foreign markets. Reductions in the nondurables group came to a halt in the final quarter of 1958, with small increases appearing quite generally.

Trade inventories were also scaled down last year. Wholesalers' stocks of durable goods displayed a quarterly pattern similar to that of manufacturing though the tapering of liquidation became apparent somewhat earlier. The principal changes in retail inventories likewise occurred in durable goods lines. Auto stocks, which had bulged in 1957, were cut back sharply, with liquidation reaching its

peak in the summer; fourth quarter increases were largely of a seasonal character. Stocks of other durables were reduced in the opening quarter of 1958, but these declines were approximately cancelled overall by increases starting in the spring.

### Business finance

The effect of changes in inventory holdings and fixed investment on the financial position of business may conveniently be summarized in terms of the experience of corporations, which as a group account for a high proportion of the total volume of business.

With a \$6 billion cutback in plant and equipment spending and the large swing from accumulation to liquidation in the inventory account, corporate demand for investment funds was off substantially last year. The supply of funds from current operations almost matched the 1957 total, the fall in retained net income being largely offset by the growth of depreciation allowances.

In this situation business reversed the trends of 1955-57 by cutting back bank and security-market borrowings, and by adding to holdings of cash and near-cash items, which had been drawn down earlier to help finance investment.

Reduction in debt to banks was widespread as working capital needs declined and short-term borrowings were funded. In the security markets, corporate refinancing was a substantial factor early in the year, but new-money flotations—like plant and equipment spending—were down considerably for 1958 as a whole.

## Government Actions

Government buying and other actions played a key role in last year's events. The direct market impact of Federal procurement featured a swing in defense spending, and especially in contract placements, which had declined markedly after mid-1957 and were stepped up early in 1958. Commodity Credit Corporation investment outlays for farm price support had a sustaining effect on income, as did the Federal employee pay increase. The uptrend in State and local outlays, continuing throughout the period, was similarly expansionary.

Of comparable importance in helping to check the downswing in business and to lay the foundations for the subsequent recovery were various other fiscal and monetary adjustments by the Federal Government. Some of these were in direct response to cyclical developments; others stemmed from policies not directly related to economic stabilization.

### Government buying up

As in other recent years, purchases by the Federal, State and local governments together accounted directly for around one-fifth of the overall demand for the Nation's output. These purchases rose substantially during the year.

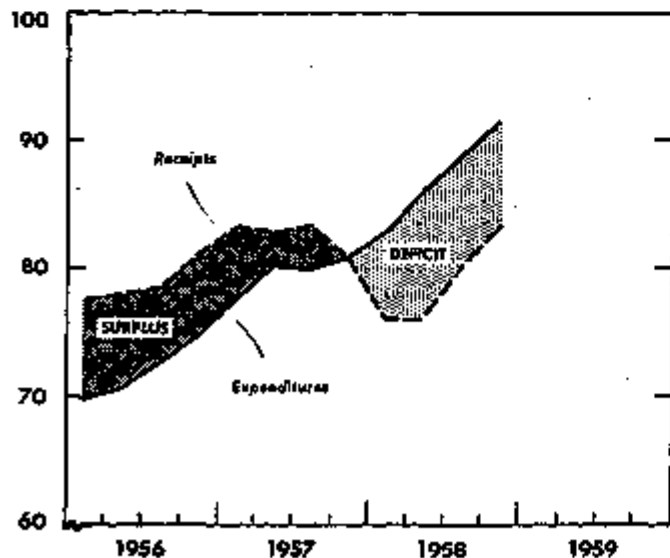
State and local governments bought \$3½ billion more than in 1957. This increase was about equally divided between employee compensation and outlays for construction, supplies and equipment.

Federal purchases were up \$3¼ billion with the advance accelerating during the year. The rise was due principally to developments outside the area of defense spending. The Commodity Credit Corporation stepped up the pace of its activity as bumper crops of wheat were harvested while exports of farm commodities—particularly cotton—slowed. The Federal employee pay increase also contributed to the rise in expenditures.

### EMERGENCE OF FEDERAL DEFICIT REFLECTED

- Increase in social security benefits
- • Larger Government purchases
- • • Reductions in corporate profit tax yield

Billion Dollars



Quarterly Totals, Seasonally Adjusted, at Annual Rates

Note.—On national income and product account

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Defense outlays, which had been reduced late in 1957, rose moderately from the spring quarter on, and by yearend were back to the 1957 peak rate. Within this group of purchases, increased outlays by the Defense Department and Atomic Energy Commission in 1958 were offset by declines in stockpiling and foreign military assistance.

The changing effects of defense procurement on general business activity are not fully apparent from actual purchases. The cut in contract placements in the latter part

below. Clearly reflected in the bank figures for early 1958 are the easy money policy pursued by the Federal Reserve and the reduced credit needs of private business. The swing seen in the nonbank total stems largely from the seasonal liquidation of corporate holdings to pay profits taxes in the first half. The seasonal bulge of tax payments in this period also explains the concentration of the deficit financing in the second half. Over the year as a whole, the increase in bank holdings about matched that in the total debt.

Aside from changes in fiscal position, the Federal Government influenced the economic picture last year with active monetary and credit policies.

To counteract the business downswing, the monetary authorities reduced discount rates and reserve requirements several times in the early part of the year. Open market operations were conducted on a scale approximately offsetting the monetary effects of the gold outflow which reached a peak during this period.

As the general economic situation improved in the second half, discount rates were gradually raised. The member banks' free reserves, which had risen during the first half with the easy money policy and the lessened business demand for credit, were likewise allowed to fall back toward their mid-1957 position. Margin requirements, lowered early last year, were raised again as stock market prices and activity increased, and by yearend stood at 90 percent.

Steps taken to ease home mortgage credit are detailed elsewhere.

Table 3.—Federal Government Receipts and Expenditures, 1958-60  
(Billions of dollars)

	Fiscal Years		
	1958	1959	1960
		Estimated	
<b>Administrative budget:</b>			
Receipts.....	69.1	88.0	77.1
Expenditures.....	71.9	80.9	77.0
Surplus or deficit (-).....	-2.8	-12.9	.1
<b>Cash budget:</b>			
Receipts.....	81.9	81.7	93.6
Expenditures.....	83.4	94.9	92.9
Surplus or deficit (-).....	-1.5	-13.2	.7
<b>National income and product account:</b>			
Receipts.....	78.3	94.5	83.5
Expenditures.....	82.5	91.0	82.0
Goods and services.....	49.6	54.0	54.0
Other.....	32.9	37.0	28.0
Surplus or deficit (-).....	-4.2	-6.5	1.5

Sources: Administrative and cash budgets from Budget of the United States Government for the Fiscal Year Ending June 30, 1960; national income and product data, United States Department of Commerce, Office of Business Economics, based on estimates in the Budget.

of 1957 had a dampening effect on business prospects, and their increase in the first half of 1958 influenced general business conditions in reverse fashion through the favorable impact on inventory and production plans.

### Transfers and taxes

Other fiscal shifts which had important consequences for the economy included the rise in transfer payments and the decline in taxes. The role of these developments in stabilizing market demand has been reviewed earlier in the discussion of personal income and its use.

Transfer payments to individuals were up \$4 billion for the year. The total was expanding as 1958 opened, and rose sharply in the second quarter. The further increases were limited and by yearend payments had begun to taper off.

This time pattern reflected chiefly the movements in unemployment compensation and in old age and disability retirement benefits. The former followed the general course of the cycle; the latter spurted last spring as self-employed groups recently brought into the programs started receiving benefits.

The \$3½ billion reduction in the 1958 Federal tax yield reflected almost entirely the sharp decline in corporate tax accruals as corporate profits fell. Individual income tax receipts were off only slightly for the year.

### Government financing

These changes in receipts and expenditures gave rise to the Federal deficit on income and product account which is shown in the accompanying chart and which, in turn, affected the capital markets.

Changes in the distribution of the public debt and guaranteed issues by owner group are summarized in the table

### Implications of new budget

Detailed expenditure proposals and estimates of Federal receipts shown in the President's Budget message to Congress last month can be translated into national income and product terms. The budget outlook will remain tentative pending Congressional action on these proposals, of course, and may be altered thereafter as events unfold.

Total spending on income and product account is budgeted to stabilize this year at a rate not far above that reached at the end of calendar 1958. With receipts estimated to rise sharply as the business upswing continues, elimination of the deficit is implied.

The annual rate of outlays for goods and services during the first half is indicated to be around \$55 billion, or a little more than in the quarter just ended. This estimate allows for a limited further rise in national defense outlays, with the total of other purchases holding even as Commodity Credit Corporation spending for the support of farm prices tapers.

The subsidy category of Federal expenditures is expected to rise in the first half and decline in the second, reflecting shifts in the farm aid program and a proposed increase in postal rates. Outlays for unemployment compensation

Shifts in Bank and Nonbank Holdings of United States Securities\*

	[Billions of dollars]			
	1957		1958	
	First half	Second half	First half	Second half
Total.....	-2.7	4.8	.7	8.1
Federal Reserve Banks.....	-1.9	1.2	1.2	.9
Commercial banks.....	-3.5	2.3	5.8	2.3
All other.....	-2.3	.3	-8.3	4.9

\*Excludes securities held in U.S. Government investment accounts.

Sources: Treasury Department.

should decline, but the effect on total transfer payments will be largely offset by the continued expansion of old-age insurance and other social security programs. Grants-in-aid to the States are expected to grow further in calendar 1959, and interest costs will also rise somewhat.

All major sources of Federal revenue are budgeted to increase on the assumption of rising business activity. Contributions for social insurance will reflect in addition the rate increase and higher maximum taxable earnings base which became effective in January.

The accompanying table summarizes these anticipations for the fiscal years 1959-60, in terms of the cash and administrative budgets as well as on the national income and product basis. The cash expenditure totals include disbursements under loan programs; as noted above, the economic effects of these programs reached a peak late last year and are currently declining. The other major point of difference between the cash budget and that used for GNP purposes is the recording of corporate profits taxes on a collection rather than accrual basis; during calendar 1959, tax collections will fall short of tax accruals.

### Exports decline

Foreign demand affected both the timing and the severity of the recession. It has not contributed to the subsequent recovery.

The spurt in exports depicted in the lower panel of the accompanying chart contributed to the upward phase of domestic business activity in 1956-57. The slide which followed was one of the factors instrumental in precipitating the downturn here, and added to its intensity.

The swing in foreign demand stemmed from cyclical movements of business activity abroad, as well as the Suez crisis and other special factors, and affected a wide range of American industries serving the export market directly or indirectly.

Import demand has been sustained during the recession by the relative strength of the markets here for a number of food products and by the growth of demand for certain foreign manufactures, including autos in particular.

The upper panel of the chart shows the movement of net exports and the manner in which funds to finance them have been provided. U.S. Government cash grants have been a comparatively stable source of dollars to our foreign customers in recent years, amounting to about \$1½ billion annually. The remaining balance has been covered by U.S. net foreign investment—capital advances by American corporations to their foreign affiliates, and U.S. acquisition of property rights generally, less analogous flows of foreign capital.<sup>1</sup>

### Changes in Structure of Income

The market shifts reviewed above were reflected in the product pattern of output. The demand for hard goods fell sharply, and recovery is still incomplete. In nondurables, the decline was much milder and has already been more than made good. Services have held close to a basic growth trend throughout the period. These developments carried national income above \$360 billion—close to the 1957 total—and have led to marked swings during the year in the type and industry structure of the income flows.

### Shifts in income types

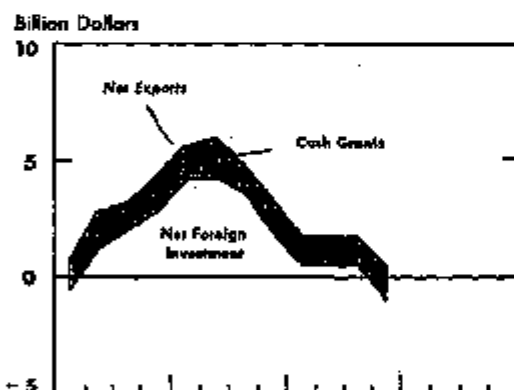
Durable goods production is largely by corporate business, and the particularly severe curtailment in output of these goods was mirrored in the flow of income from corporations. Compensation of corporate employees fell \$8½ billion, at annual rates, from the third quarter of 1957 to the low point early last year. Corporate profits, swinging widely with the short-term change in demand, experienced an even larger fall. Reflecting partly an improvement in durable goods demand and partly record sales of nondurables, corporate business recovered in the second half of 1958. Mirroring the pattern that had characterized the downswing, the increase was as usual very sharp in the case of profits.

Payrolls have displayed pronounced resistance to deflationary pressures in the postwar period. Wage rates held even or advanced throughout the recession periods and employment fell off substantially less than did production volume overall. The effect of these tendencies is augmented by a shift which has occurred in the composition of the work force. Over the postwar period there has been a significant increase in the proportion of salaried workers in the total, and both the tenure and the pay rates of such workers have characteristically been slow to reflect changes in business activity.

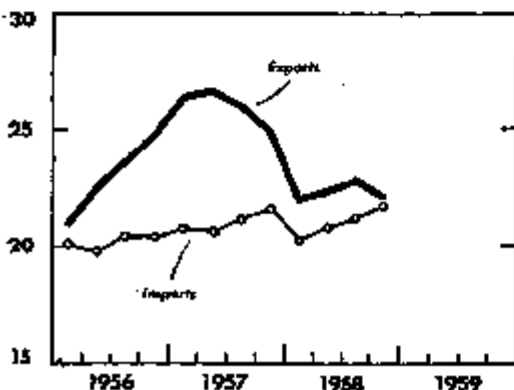
Seen from the standpoint of profits, these tendencies in the payroll structure make for difficulties in adjusting costs to fluctuations in business. The extraordinary growth of depreciation allowances and other items of overhead in

### Foreign Trade and Finance

Net exports, financed by cash grants and U. S. investments abroad, contracted . . .



as exports fell after 1956-57 spurt



Quarterly Totals, Seasonally Adjusted, at Annual Rates

U. S. Department of Commerce, Office of Business Economics

59-2-4

1. A definitional change has been made in the treatment of Government cash grants to foreigners. As explained on page 12 of the December 1958 Survey, these grants are now classified as international transfers rather than as government purchases from abroad.



recent years has likewise operated to make profits more sensitive to changes in sales volume.

The swings in corporate payrolls and profits were responsible for the major shifts in the type distribution of national income during 1958. This distribution also showed the effects of advances in earnings from government and from agriculture. The former are measured by the compensation of government employees and the latter consist primarily of the net income of farm proprietors. Together, these corporate and noncorporate developments left profits down somewhat for last year as a whole, employee compensation virtually unchanged, and proprietors' net income above 1957. Interest income continued to advance.

### Uptrend in wage rates

Employee compensation totaled \$254 billion in 1958. Earnings in government were \$3 billion higher than the year before. With the business recovery still incomplete, total compensation of private employees fell a little short of reaching the 1957 total.

Chiefly responsible for the decline in private payrolls was reduced employment. The average length of the work week was also down a little for the year, showing the recession influence as well as the general postwar trend.

Counterbalancing much of the combined effect of these two factors was a continued rise in average hourly earnings. This is reflected on a year to year basis in the final column of table 5, which shows average earnings per employee up 2 percent despite the reduction in hours. The advance is seen to have been industrially widespread, extending to every major industry group. Increases, however, were generally less than those recorded from 1956 to 1957. The slowdown would have been more marked but for the spillover effects of pay increases initiated in 1957; for much of last year the bargaining position of labor was adversely affected by the general uncertainty of the economic outlook. Despite these circumstances, reported month-to-month changes in average hourly earnings during 1958 were preponderantly upward.

Employment in private industry averaged 44.8 million in 1958, as compared with 46.6 million the year before. (See tables 4 and 5.) As usual in the early stages of an economic upswing, the pace of reemployment since last spring has fallen short of the expansion in output. The advance in the

latter has reflected a marked increase in industrial efficiency as the rate of capacity utilization moved toward normal, and there has been some recovery in average hours worked per week.

### Profits, taxes and dividends

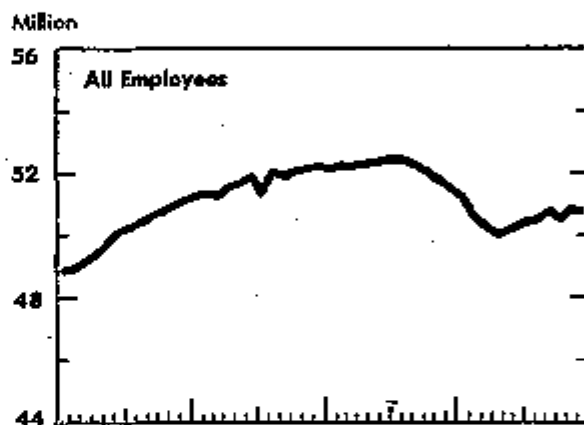
The sharp fluctuations in corporate earnings have been reflected in varying degree in the disposition of these earnings among taxes, dividends and retained net income.

The accompanying chart shows taxes and after-tax profits to have shared about equally in the swing of the pretax total. The recession cut profits after taxes from a \$22 billion annual rate in the summer of 1957 to \$15½ billion in early 1958. Profits taxes fell by a like amount. With the second half recovery, much of the decline was cancelled in each case.

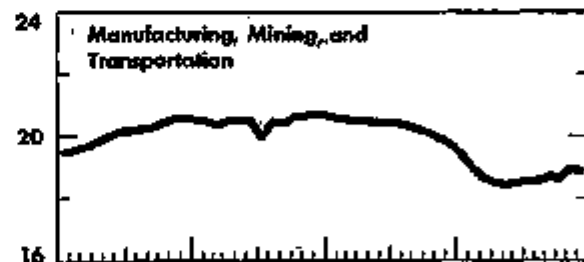
The flow of purchasing power to consumers was scarcely

### Employment in Nonagricultural Establishments

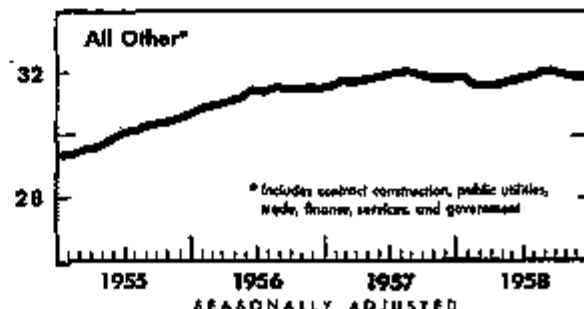
Partial recovery since spring



### Principal changes were in goods, production and transportation



### Other employment fluctuated little



U. S. Department of Commerce, Office of Business Economics

Data: BLS  
88-2-12

Table 4.—Employment in Selected Industries

(Seasonally adjusted)

	1957		1958		Changes	
	July 1	April 1	December	July 1957- April 1958	April 1958- December 1958	
	(Millions)					
Total wage and salary workers in non-agricultural establishments.....	32.5	30.1	30.8	-2.4	0.7	
Manufacturing.....	16.9	16.2	16.7	-1.7	0.5	
Durable goods.....	9.9	8.6	9.0	-1.3	0.4	
Nondurable goods.....	7.0	7.6	7.7	-0.6	0.1	
Mining.....	0.8	0.7	0.7	-0.1	0	
Construction.....	2.8	2.6	2.5	-0.3	-0.1	
Trade.....	11.4	11.1	11.1	-0.3	0.1	
Total above industries.....	31.9	29.6	30.1	-2.3	0.5	
Other industries.....	20.5	20.4	20.7	0	0.3	

(Changes computed from unrounded numbers.)

1. Pre-recession high.  
2. Recession low.

Source: U. S. Department of Labor.

494191-39-12

Table 5.—Employment, Payrolls, and Average Annual Earnings by Major Industrial Division, 1956-58

	Number of full-time equivalent employees <sup>1</sup>			Wages and salaries			Average annual earnings per full-time employee				
	Data in thousands			Millions of dollars			Dollars			Percent changes	
	1956	1957	1958	1956	1957	1958	1956	1957	1958	1956-57	1957-58
All industries, total.....	56,238	56,544	54,827	227,364	348,120	337,096	4,022	4,211	4,334	4.2	2.7
Agriculture, forestry, and fisheries.....	2,007	2,000	2,017	3,289	3,879	3,432	1,639	1,940	1,711	2.1	1.2
Mining.....	819	812	708	4,167	3,716	3,716	5,014	4,528	5,288	1.0	8.6
Contract construction.....	2,904	2,881	2,671	15,072	15,924	15,793	5,171	5,528	5,199	5.3	4.6
Manufacturing.....	16,950	16,935	16,345	77,097	80,630	76,363	4,548	4,781	4,611	4.3	2.7
Wholesale and retail trade.....	10,882	10,483	10,340	40,001	43,183	42,075	3,680	4,019	4,027	4.1	2.7
Finance, insurance, and real estate.....	2,318	2,376	2,417	9,395	10,327	10,090	4,011	4,341	4,228	3.9	2.8
Transportation.....	2,685	2,657	2,457	13,349	13,090	13,325	4,972	4,946	5,436	2.5	3.4
Communications and public utilities.....	1,471	1,493	1,468	6,784	7,186	7,843	4,612	4,813	5,369	4.4	3.9
Services.....	6,988	7,100	7,190	20,861	23,330	22,090	3,008	3,248	3,192	4.6	1.8
Government <sup>2</sup> .....	9,784	9,929	10,010	20,045	20,119	21,835	2,059	2,041	2,178	2.9	6.3
Addendum:											
All private industries.....	46,452	46,615	44,817	186,289	288,001	284,270	4,074	4,248	4,385	4.3	2.0
All private nonfarm industries.....	44,581	44,773	42,857	186,496	286,169	281,890	4,181	4,389	4,484	4.3	2.2

1. Differs from data in table 4 as to timing, coverage (in particular, table 4 excludes Armed Forces and household employees), and in being adjusted to a full-time equivalent basis. Full-time equivalent employment measures man-years of full-time employment of wage and salary earners and its equivalent in work performed by part-time workers. Full-time employment is defined simply in terms of the number of hours which is customary at a particular time and place. For a full explanation of the concept, see *Survey of Current Business*, June 1948, pp. 17-18.

2. Includes government enterprises and rest of the world.

Source: U.S. Department of Commerce Office of Business Economics.

affected by the movements in net earnings, dividends being maintained overall. The full impact of the cycle in after-tax profits fell on undistributed net income, which fluctuated widely during the period. As has been noted, the effects of these changes on the availability of investment funds probably had little influence on the demand for capital goods last year.

There was wide variation in the profits experience of individual industries. In general, the pattern of change was in line with that found in the industrial origins of national income.

### Industrial pattern of production

Last year's national income approached that of 1957 mainly because of the strong upturn in service-associated lines. In general, industries depending chiefly on the final demand for commodities fell short of their 1957 records.

In the group classified as service-connected, the sharpest year-to-year advances were those recorded for the communications and public utilities division and for government. The flow of earnings from finance, insurance, and real estate likewise continued to expand with the country's growth in wealth and population, as did income from business, professional and other services. Contributing to the advance in all these cases were higher prices and rates reflecting, with some lag, the influence of the general 1955-57 upturn in costs. In total, this group of service-associated industries generated around \$6 billion more income last year than in 1957, and \$14 billion more than in 1956.

The less favorable character of the experience reported for lines producing and handling commodities was especially evident in durable-goods manufacturing, and in the transportation and mining divisions—the latter depending heavily on the hard goods producers' demands for materials and fuel, and the former on their freight business. The apparently substantial gains of these three industries in the final months of the year cannot yet be measured precisely; from the data now available, however, the value of their total net output in 1958 may well have been off as much as \$10 billion measured in terms of factor earnings.

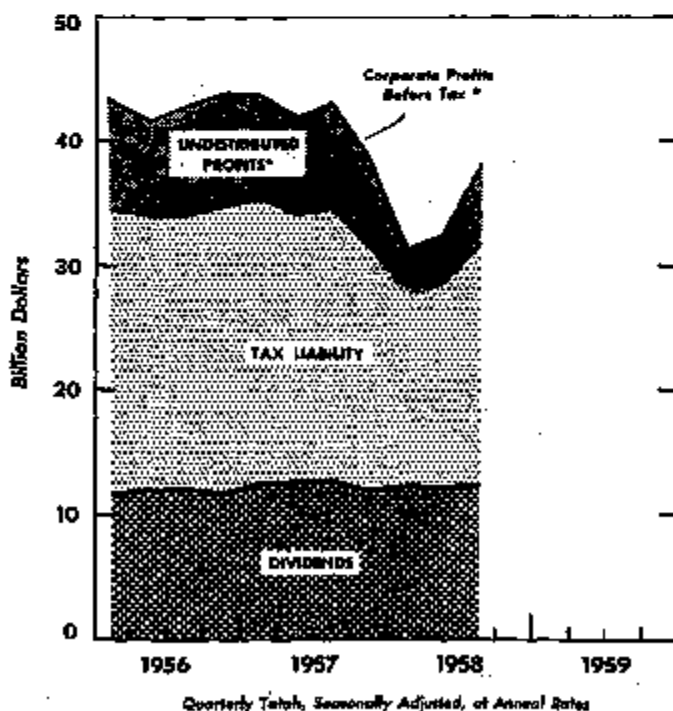
The 1958 record for major industries producing nondurable goods was a great deal better. In agriculture, income moved

up counter-cyclically in response to price and production developments reviewed elsewhere in this issue. In manufacturing, most nondurable groups proved as usual relatively less sensitive to the swing in general business than did the durables.

Nondurable goods manufactures enter importantly into the production of durable items, but a large part of the total

### Corporate Profits

Experienced wide swings



\* Including inventory valuation adjustments

U.S. Department of Commerce, Office of Business Economics

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flows directly to final purchasers. The relative stability of the latter flow helped maintain activity in nondurable goods production—and in wholesale and retail trade as well—last year.

## Price Developments

As noted earlier, the quarter-to-quarter advances in the value of GNP last year stemmed mainly from an upswing in the real volume of output. The final-product price index has been very nearly stable since its 3-year advance tapered off last spring.

There have been important shifts in the structure of prices, however, both at wholesale and at retail. These changes—some already referred to as contributing to GNP developments—may be summarized as follows.

### Consumer price index

Consumer prices on the average continued to move up in the first half of 1958, and then leveled off as declining food prices offset small advances elsewhere. At yearend the monthly consumer price index was 2 percent higher than a year earlier. The food price index was up by a similar percentage.

The accompanying table brings out major characteristics of the 1958 price movements.

Among the nonfood goods and services, prices of services extended the steady rise that has characterized their movements in all recent years. The rise during the first half year, containing the trough of the recession, was larger than that in the June-December period with recovery under way; that larger rise is chiefly ascribable to the increase in early 1958 of public transportation rates.

Commodities other than food dipped somewhat in the first half year, then rose as business activity expanded in the second half year, to register a small net increase for the year as a whole. The nondurable nonfoods showed a nominal net decline for the year as the second-half price rise fell short of the first half decline in which lower fuel prices played a leading part. The important apparel group price index dipped in the first half and recovered virtually all of the drop in the last half.

Prices of consumer durables were dominated by new and used car prices. These followed the characteristic seasonal pattern of decline in the first half year as the time for intro-

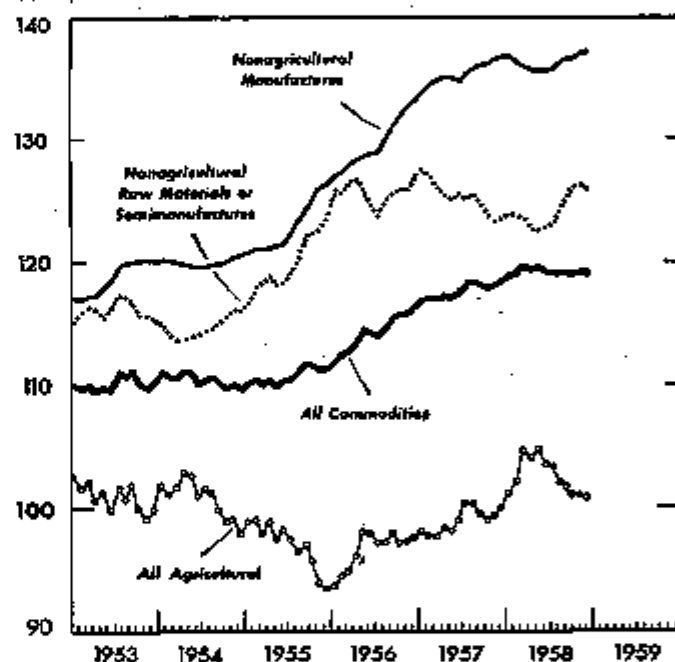
ducing new models approached and of upturn in the last half as the new models replaced the old. December 1958 prices of new cars were 6 percent above those of December 1957, while prices of used cars were 9 percent higher. Durables other than automobiles were unchanged for the year.

### Wholesale price changes

The all-commodity wholesale price index showed even greater stability in 1958 than did the consumer price index and for the same reason—namely, divergent changes in agricultural and nonagricultural prices largely offsetting each other. The December 1958 index at 119.2 (1947-49=100) was up 0.6 percent above the December 1957 figure, with prices in the intervening months moving fractionally above and below that level.

## Wholesale Prices

Index, 1947-49=100



Notes: Based on BLS series

U. S. Department of Commerce, Office of Business Economics

59-2-11

Table 6.—Consumer Prices

(Indexes, 1947-49=100)

	Dec. 1957	June 1958	Dec. 1958	Percent change:		
				Dec. 1957-June 1958	June 1958-Dec. 1958	Dec. 1957-Dec. 1958
All items.....	121.0	123.7	123.7	1.7	0	1.7
Food.....	116.1	121.0	118.7	4.7	-2.4	2.2
All items less food.....	124.5	125.2	125.5	0.6	1.0	1.6
All commodities less food.....	113.0	113.0	114.4	-0.6	1.3	0.7
Nondurables.....	117.8	116.7	117.0	-0.5	0.3	-0.3
Apparel.....	107.6	106.7	107.5	-0.3	0.7	-0.1
All other.....	120.8	126.4	125.4	-0.8	0	-0.3
Durables.....	110.3	109.8	112.9	-0.6	3.0	2.4
New cars.....	135.2	126.8	143.0	-3.3	9.8	6.3
All other.....	103.2	106.4	103.2	0.2	-0.2	0
Services.....	130.0	142.8	143.5	1.6	0.3	2.6
Rent.....	130.7	137.7	133.7	4.7	-0.7	1.5
All other.....	141.1	143.3	145.0	1.9	0.3	2.4

Source: U. S. Department of Labor.

In late winter and early spring, at about the same time that business activity and nonagricultural prices were at their recession low points, prices of agricultural products reached their highest level since 1952 as the result of smaller supplies. Supplies of fruits and vegetables were reduced by the last winter's severe weather in the Southern States, while animal marketings were lowered by small production and inventory building on the farms. For major crops where supplies were ample, as, for example, cotton, Government price supports prevented or limited price declines.

During the second half of the year, larger actual or prospective supplies exerted increasing downward pressure, and agricultural prices in December were 4 percent below the spring high and fractionally above the year earlier average. The agricultural raw or semimanufactured materials index in that month stood at 90.2 (1947-49=100), or somewhat below the December 1957 number while the agricultural manufactures index was 107.4 or 2½ percent higher.

Nonagricultural prices moved gradually upward from the

recession low touched in the early spring and closed the year at 134.5, a new high fractionally above the December 1957 level. As a group, the raw or semimanufactured materials reacted more sensitively to demand fluctuations than did the manufactured products. The sharpest decline and rebound occurred in scrap materials; such prices move most freely of all nonagricultural materials in response to relative supply-demand changes, with scrap metals being especially sensitive.

The spread between the index of nonagricultural raw or semimanufactured materials prices and prices of manufactures at the recession low point was the widest in several years but has narrowed since then with the more rapid recovery in raw or semimanufactured materials prices.

Prices of most nonagricultural manufactures declined

little if any during the recession and, resuming the uptrend in the second half of the year, stood higher in December 1958 than they were a year earlier. Chief exceptions were the liquid fuels where gasoline and fuel oil ended the year lower as prices receded further from the peak occasioned by the Suez affair, and the chemicals which closed below the December 1957 level largely because of lower quotations for synthetic textiles and mixed fertilizers. Most durable manufactures showed December-to-December price increases, especially the broad machinery and motive products group; consumer durables such as household appliances and radios, television receivers and phonographs, were the chief exceptions as these registered slightly lower closing prices.

### NEW DATA AND PUBLICATION ON NATIONAL INCOME

Several new tables, containing additional quarterly information on national product, national income and related items are published in this issue of the SURVEY. These tables will henceforth be made available regularly during the year in connection with our periodic analyses of national income and product. A full explanation of the new quarterly reporting system as well as data for 1946-57 can be found in U.S. INCOME AND OUTPUT, which will be available soon at the cost of \$1.50 from the U.S. Government Printing Office, Washington 25, D.C. and the Field Offices of the Department of Commerce. The numbering of the tables that are a regular part of the new reporting system conforms to the one used in U.S. INCOME AND OUTPUT, although the order in which they appear in this issue is not the same.

Table I-3.—Gross National Product or Expenditure, Seasonally Adjusted Quarterly Totals at Annual Rates, 1937-58

(Billions of dollars)

	1937	1938	1937		1938			
			III	IV	I	II	III	IV
Gross national product	440.3	437.7	435.6	438.3	427.1	426.4	423.8	432.6
Personal consumption expenditure	284.4	280.6	280.3	287.2	284.2	286.3	281.5	285.8
Durable goods	39.9	38.8	40.4	39.8	38.3	38.6	38.1	38.8
Nondurable goods	138.0	141.9	140.5	138.5	139.8	141.4	142.9	143.2
Services	106.5	111.0	107.4	108.7	110.1	111.3	112.5	113.8
Gross private domestic investment	65.3	54.4	62.7	61.5	59.9	59.7	54.8	61.8
New construction	38.5	36.5	38.8	37.1	34.3	34.9	34.3	38.6
Residential construction	17.0	17.8	18.9	17.6	17.1	16.2	17.9	20.1
Other	19.5	18.7	19.7	19.6	19.2	18.7	18.4	18.5
Producers' durable equipment	27.6	22.8	28.0	26.7	22.9	22.3	22.3	23.0
Change in business inventories—total	1.0	-4.7	2.2	-2.3	-3.2	-3.8	-4.2	.0
Nonfarm only	.2	-5.3	1.3	-3.1	-2.6	-7.8	-5.4	-1.9
Net exports of goods and services	4.9	1.4	4.8	1.3	1.7	1.7	1.7	.4
Exports	20.0	22.3	20.8	21.9	21.9	22.4	22.8	22.1
Imports	21.0	20.9	21.2	21.6	22.2	20.8	21.2	21.7
Government purchases of goods and services	35.7	31.2	33.3	34.9	35.3	36.7	32.8	35.2
Federal	49.4	51.7	48.7	49.1	49.7	50.7	52.2	54.2
National defense	44.3	44.4	44.0	43.9	43.7	44.1	44.5	45.8
Other	5.1	7.3	4.7	5.2	6.0	6.6	7.7	8.4
Less: Government sales	.4	.3	.6	.5	.3	.3	.3	.2
State and local	30.8	30.0	34.1	37.8	38.6	39.1	38.9	41.0

Table I-4.—Gross National Product or Expenditure, Quarterly, 1937-58

(Billions of dollars)

	1937	1938	1937		1938			
			III	IV	I	II	III	IV
Gross national product	440.3	437.7	116.5	115.6	102.3	106.6	109.6	115.2
Personal consumption expenditure	284.4	280.6	70.8	77.3	68.2	71.4	71.4	78.6
Durable goods	39.9	38.8	9.6	11.1	8.2	9.0	8.6	11.0
Nondurable goods	138.0	141.9	34.1	32.3	32.3	34.5	34.5	40.4
Services	106.5	111.0	26.8	23.9	27.8	28.0	28.0	28.1
Gross private domestic investment	65.3	54.4	17.4	15.2	12.3	12.1	14.7	15.2
New construction	38.5	36.5	10.1	9.6	7.7	8.8	10.1	9.7
Residential construction	17.0	17.8	4.8	4.8	3.4	4.2	5.1	5.1
Other	19.5	18.7	5.3	4.8	4.3	4.6	5.0	4.6
Producers' durable equipment	27.6	22.8	8.9	7.3	5.1	5.8	5.7	6.0
Change in business inventories—total	1.0	-4.7	.4	-1.6	-.6	-2.5	-1.1	-.5
Nonfarm only	.2	-5.3	.2	-1.8	-.8	-2.9	-1.4	-.7
Net exports of goods and services	4.9	1.4	.7	1.3	.5	.5	.9	.4
Exports	20.0	22.3	6.1	6.4	5.5	5.7	5.4	5.7
Imports	21.0	20.9	4.4	5.2	5.8	5.2	5.4	5.3
Government purchases of goods and services	35.7	31.2	21.8	21.8	21.1	22.7	23.3	23.9
Federal	49.4	51.7	12.3	12.2	12.4	12.9	13.1	13.5
National defense	44.3	44.4	11.3	10.9	10.9	11.1	11.2	11.2
Other	5.1	7.3	1.3	1.6	1.6	1.7	2.0	2.3
Less: Government sales	.4	.3	.1	.1	.1	.1	.1	.1
State and local	30.8	30.0	9.8	9.8	9.0	9.9	10.2	10.6

Table I-5.—Gross National Product or Expenditure, Seasonally Adjusted Quarterly Totals at Annual Rates, in Constant Dollars, 1957-58

[Billions of 1954 dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Gross national product.....	497.9	395.4	399.1	392.2	397.5	398.8	398.9	497.7
Personal consumption expenditures.....	276.3	269.9	272.9	278.4	268.7	267.4	270.5	274.8
Durable goods.....	38.1	34.8	38.5	37.0	34.6	32.9	34.2	36.6
Nondurable goods.....	132.7	133.5	134.4	132.4	131.5	132.4	134.5	135.8
Services.....	69.4	101.5	100.0	100.9	106.5	101.1	101.8	102.2
Gross private domestic investment.....	57.8	47.4	53.4	54.0	44.5	44.1	47.4	53.4
New construction.....	32.3	31.5	32.1	32.5	31.8	30.3	31.7	32.4
Residential nonfarm.....	15.6	15.1	15.2	15.9	15.4	14.7	15.2	17.9
Other.....	16.9	16.7	16.9	16.6	16.2	15.6	16.5	14.5
Producers' durable equipment.....	25.1	19.1	24.0	22.7	19.4	18.8	18.8	19.8
Change in business inventories—total.....	1.4	-8.5	2.3	-1.3	-8.5	-5.0	-2.1	.8
Nonfarm only.....	.1	-5.2	.8	-3.7	-8.2	-6.9	-4.9	-8.8
Net exports of goods and services.....	3.8	.1	2.7	2.9	.4	.3	.5	-1.9
Government purchases of goods and services.....	75.9	78.1	74.1	74.8	75.9	76.9	76.4	88.9
Federal.....	42.7	43.8	42.3	41.8	42.3	43.2	44.0	45.6
State and local.....	32.3	34.2	31.8	33.0	33.6	33.8	32.4	35.1

Table I-18.—Relation of Gross National Product, National Income, and Personal Income, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

[Billions of dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Gross national product.....	449.3	437.7	445.6	438.9	427.1	430.4	439.5	453.9
Less: Capital consumption allowances.....	37.7	39.6	39.1	38.5	39.9	39.5	39.7	40.4
Indirect business taxes and non-tax liability.....	37.6	36.6	37.9	37.7	39.0	38.2	38.6	39.4
Business transfer payments.....	1.6	1.6	1.5	1.6	1.6	1.6	1.6	1.6
Statistical discrepancy.....	.7	-1.2	.7	.7	-1.0	-1.2	-3.0	n.a.
Plus: Subsidies less current surplus of government enterprises.....	1.3	1.5	1.3	1.2	1.0	1.3	1.3	1.6
Equals: National income.....	384.0	396.5	388.7	381.5	355.7	351.9	364.3	n.a.
Less: Corporate profits and inventory valuation adjustment.....	41.9	30.2	43.1	38.8	31.3	32.5	33.0	n.a.
Contributions for social insurance.....	14.2	14.4	14.3	14.2	14.2	14.2	14.7	14.6
Excess of wage accruals over disbursements.....	.0	.0	.0	.0	.8	.8	-1.3	.0
Plus: Government transfer payments to persons.....	19.9	24.2	20.0	21.3	22.5	24.6	25.2	24.9
Net interest paid by government.....	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.2
Dividends.....	12.4	12.9	12.7	12.0	12.5	12.4	12.3	11.8
Business transfer payments.....	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Equals: Personal income.....	247.9	254.4	251.8	249.7	246.3	251.2	253.6	257.4

n.a.—Not available.

Table I-9.—National Income by Type of Income, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

[Billions of dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
National income.....	384.0	396.5	388.7	381.5	355.7	351.9	364.3	n.a.
Compensation of employees.....	254.6	269.9	272.9	278.4	268.7	267.4	270.5	274.8
Wages and salaries.....	238.1	237.1	240.5	238.0	234.4	234.2	238.4	241.3
Private.....	196.0	194.3	193.9	197.4	183.7	181.3	193.0	197.6
Military.....	9.0	9.8	9.3	9.0	8.4	8.6	10.0	10.0
Government civilian.....	30.6	33.1	30.6	31.1	33.3	32.8	33.4	33.7
Supplements to wages and salaries.....	16.5	16.7	16.8	16.8	16.5	16.4	16.9	17.1
Proprietors' income.....	43.9	45.2	43.5	42.8	44.8	45.4	46.5	45.6
Business and professional.....	31.4	31.0	31.7	31.3	30.8	30.7	31.1	31.9
Farm.....	11.6	14.2	11.8	11.5	13.7	14.9	14.4	13.7
Rental income of persons.....	11.8	12.3	12.8	12.2	12.1	12.1	12.2	12.9
Corporate profits and inventory valuation adjustment.....	41.9	36.2	43.1	38.8	31.3	32.5	33.0	n.a.
Profits before tax.....	42.4	36.4	44.2	39.9	31.7	32.0	37.9	n.a.
Profits tax liability.....	23.0	18.6	22.0	18.9	16.1	16.8	19.3	n.a.
Profits after tax.....	21.8	17.9	22.1	20.0	15.5	15.7	18.6	n.a.
Inventory valuation adjustment.....	-1.6	-2	-1.1	-1.1	-3	.5	.2	n.a.
Net interest.....	12.6	15.2	12.8	12.9	13.0	13.1	13.3	13.3

n.a.—Not available.

1. Includes also the pay of employees of government enterprises and of permanent United States residents employed in the United States by foreign governments and international organizations.

Table II-2.—Personal Income and Its Disposition, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

[Billions of dollars]

	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Personal income.....	247.9	254.4	251.8	249.7	246.3	251.2	253.6	257.4
Wage and salary disbursements.....	238.1	237.1	240.5	238.0	234.4	234.2	238.4	241.3
Commodity-producing industries.....	122.2	97.8	123.9	106.8	85.8	96.7	97.0	99.6
Manufacturing only.....	50.6	78.4	81.7	78.4	75.7	74.7	76.9	78.4
Distributive industries.....	63.8	83.3	84.1	83.6	83.3	82.7	82.0	83.0
Services industries.....	32.6	39.9	37.8	33.9	33.9	36.5	32.8	34.7
Government.....	40.1	42.8	40.6	40.4	41.0	41.7	45.0	48.7
Other labor income.....	9.9	9.1	9.1	9.2	9.0	9.0	9.1	9.3
Proprietors' income.....	43.9	45.2	43.5	42.8	44.8	45.4	46.5	45.6
Business and professional.....	31.4	31.0	31.7	31.3	30.8	30.7	31.1	31.9
Farm.....	11.6	14.2	11.8	11.5	13.7	14.9	14.4	13.7
Rental income of persons.....	11.8	12.3	12.8	12.2	12.1	12.1	12.2	12.9
Dividends.....	12.4	12.9	12.7	12.0	12.5	12.4	12.3	11.8
Personal interest income.....	18.8	19.4	19.0	19.1	19.3	19.9	19.4	19.6
Transfer payments.....	21.8	25.9	22.8	22.9	24.2	26.2	26.9	26.5
Old-age and survivors insurance benefits.....	7.8	8.6	7.5	7.9	7.9	8.7	8.8	8.9
State unemployment insurance benefits.....	1.8	4.0	1.7	2.4	3.0	4.0	4.8	4.2
Veterans' benefits.....	4.3	4.9	4.3	4.9	4.9	4.5	4.5	4.4
Other.....	8.0	3.9	8.1	8.3	8.7	8.9	8.8	9.0
Less: Personal contributions for social insurance.....	6.6	6.7	6.7	6.6	6.7	6.7	6.9	6.8
Less: Personal tax and nontax payments.....	42.7	42.8	43.1	43.0	42.3	42.3	42.5	43.7
Federal.....	37.4	37.0	37.7	37.5	36.6	36.6	37.6	37.8
State and local.....	5.4	5.9	5.4	5.5	5.7	5.8	5.9	5.9
Equals: Disposable personal income.....	205.3	211.6	208.7	206.8	204.0	208.9	211.1	213.8
Less: Personal consumption expenditures.....	204.4	200.6	203.8	207.2	205.2	208.3	211.5	215.9
Equals: Personal saving.....	20.7	21.0	24.4	19.6	19.9	20.7	22.6	19.9
Addendum: Disposable personal income in constant (1954) dollars.....	200.1	209.3	202.1	208.9	205.2	206.7	209.3	202.6

(Continued on page 23)

# Production and Distribution

**M**OST production and distribution series have conformed broadly to the curve of general business in 1958. The main divergence has been in the extent of the decline and of the subsequent recovery. Progress may be traced through the pattern of new orders received by manufacturers.

Early in 1958, new orders placed with manufacturers reached their low and then rebounded with substantial vigor. For manufacturing as a whole, the rise in incoming business averaged more than 1½ percent a month from March through December. In durables, where the preceding decline had been sharp, new contracts in December were one-fourth higher than at the trough 10 months earlier. Expanded defense contract placement initiated the upturn for the group, but gradually improving business conditions augmented civilian ordering. During the second half of the year, rising orders stemmed largely from construction and consumer durable and nondurable goods demand.

Within the durable goods manufacturing industries, steel and building materials producers recorded the largest percentage advances in new orders—the increases amounting to three-fifths and two-fifths respectively. Incoming business in December for transportation equipment and fabricated metal producers was about a fifth higher than at the late winter low. For electrical machinery the corresponding rise was but a tenth. However, the orders position of this group is one of the strongest in manufacturing as it experienced only a moderate diminution in incoming business in the 1957 decline and the 1958 gain was from a rather high level.

The improvement of about 15 percent in business placed with nonelectrical machinery manufacturers was extremely moderate in view of the sharp contraction in orders for this group from the peak which had been reached as early as the summer of 1956. The relatively sluggish orders situation for these producers of industrial and other types of nonelectrical machinery reflects in large measure the level expenditures for producers durables.

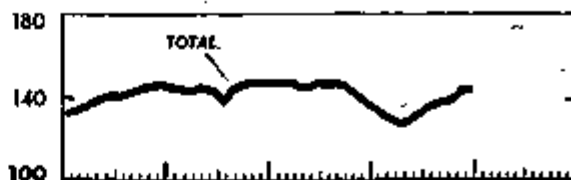
## Decline in backlogs reversed

The reduction of backlogs on manufacturers books, which had begun in December 1956, ended about mid-1958. The advance since then has been very moderate as is characteristic of the early stages of a cyclical upturn. The metals, electrical machinery, and building materials industries accounted for the rise in backlogs during the second half. For electrical machinery the improvement brought end-of-1958 unfilled orders above year-ago totals. In all other durable goods industries backlogs were below December 1957—the difference for the group as a whole amounting to \$4 billion.

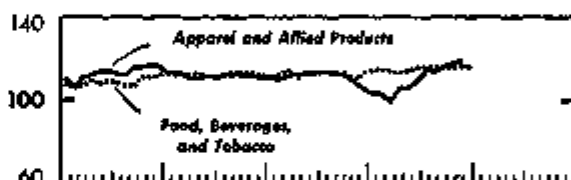
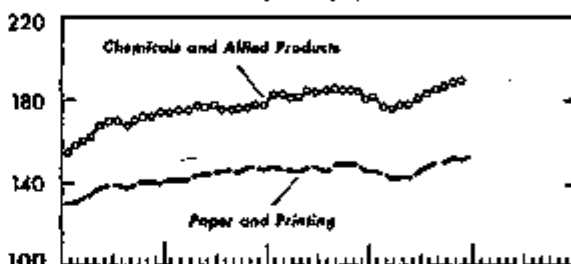
## Manufacturing Production

### Decline and Recovery in 1958

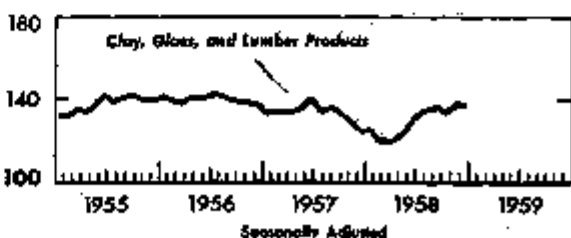
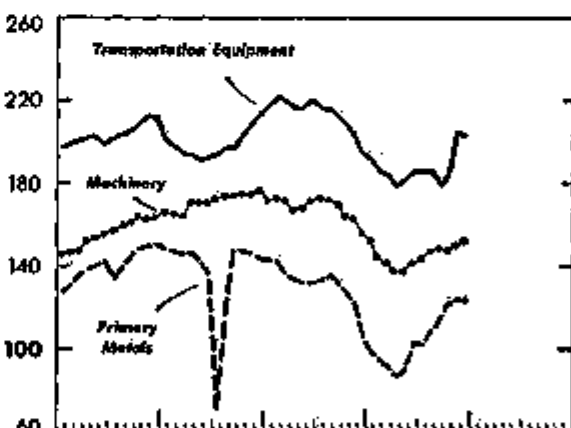
Index, 1947-49=100



### Some industries, chiefly nondurables, reached new highs by yearend



### Most durables declined sharply and only partly recovered



U. S. Department of Commerce, Office of Business Economics

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End of December backlogs of transportation equipment and nonelectrical machinery companies were a little under the mid-1958 totals. Easing in the volume of placement of defense orders combined with increasing deliveries on maturing defense contracts account for this situation in aircraft and other transportation equipment companies.

### Patterns in 1957-58

The patterns of change in the 1957-58 cyclical swing in business may be illustrated by an examination of the movements of sales in manufacturing and trade.

Sales of nondurable goods manufacturers as a group declined only moderately and practically all the ground has been recovered. The delayed pickup in auto sales at retail and the rather general slow recovery at wholesale were mainly responsible for the lag in durable goods sales in trade channels. In both retail and wholesale trade, sales of the nondurable goods establishments were down only a small amount from the 1957 highs and the subsequent recovery brought new dollar peaks.

### Cross-currents by industries

In the automobile industry, demand did not revive until the final months of the year, and during much of 1958 a gradual reduction in inventories took place. Sales of the group of industries affected by plant and equipment expenditures dropped in the first half and leveled off during the latter part of the year.

The construction industry displayed a pattern which differed considerably from that of other major industries, and within the industry important subgroups have reflected diverse movements. Construction activity in 1958 was higher than in 1957, although in real terms the total was about the same. Housing which had weakened as early as 1956 advanced strongly last year to reach a rate well above that of the year before. Private nonresidential construction declined in 1958, with the drop centering principally in industrial construction. Public construction, especially schools and highways, continued on a rising trend.

Finally, the other important exception to the dominant economic pattern of the past year was agriculture. By a rather unusual combination of circumstances a sharp expansion in farm output was accompanied by a substantial rise in farm income. The rise in production was chiefly in crops which received government price support, whereas declines in marketings occurred in livestock where the elasticity of demand is such that more than proportional rises in prices ensued under generally sustained consumer demand. Other differences were evident—farm inventories were increased while nonfarm stocks were reduced; price movements were also generally contrasting, with farm prices advancing early in the year and declining toward the yearend.

## Industrial Production

Industrial production advanced steadily beginning in May, tracing a pattern of substantial recovery. At the yearend, output was one-eighth above the April low, less than 3 percent below the February 1957 high month, and only slightly off from the average of 1957. The pattern of recovery was not a reverse image of the decline, and so there were differences in the position of particular industries in comparison with those in mid-1957.

Aside from the improvement in basic demand, the slackened pace of inventory liquidation tended to bolster output during the latter half of the year.

For 1958, the decline in industrial production from 1957, as measured by the Federal Reserve index, amounted to 6 percent, about the same year-to-year reduction as in the two earlier postwar recessions. Of the major groups, all but lumber, food, and tobacco products registered year-to-year decreases. The reductions from 1957 were sharpest in the durables and particularly in the metals and metal fabricating lines. For the nondurables, output of most industries was at a new peak in December. In contrast, output of nearly all of the durable goods and mineral industries at the yearend was still considerably below the earlier highs.

### Materials output lower

Reduced demand and relatively high inventories at the beginning of the year kept plants producing raw and semi-finished materials operating below available plant capacity in 1958. An essential part of this picture, however, is that manufacturing capacity has been expanding rapidly in recent years. In 1958, for example, nearly 7 million tons of steel and close to 4 million tons of pig iron were added to the Nation's iron and steel making facilities; about 400,000 tons of aluminum, 30 million barrels of cement, and over 120 million pounds of noncellulosic fibers were added to production capacity. Additional capacity for the production of materials is scheduled to be completed and in operation this year.

The production pattern in 1958 varied widely with the more cyclically sensitive durable materials registering the sharper reductions. Following exceptionally low operations in the first 4 months, steel production turned upward and the recovery moved at a steady pace during the remainder of the year. In mid-December, steel mills were operating at 75 percent of rated capacity, and for the month turned out 8.7 million tons, more than half again as much as in April. For the year as a whole, production of steel ingots and castings aggregated 85.3 million tons, about one-fourth below 1957 output.

With demand broadening both for immediate consumption and for replenishing inventories, the expansion of steel production continued in the first 2 months of 1959. Operations in January averaged 74 percent of the enlarged capacity as of January 1, 1959, equivalent to over 9.3 million tons. The turnout last month was at an annual rate of 112 million tons, only moderately below the record 1955 volume. In

Table 7.—Industrial Production

(Index 1947-49=100; seasonally adjusted)

	Total	Manufactures		Minerals
		Durables	Nondurables	
1957				
1st quarter.....	146	163	131	132
2nd quarter.....	144	161	131	130
3rd quarter.....	145	162	131	129
4th quarter.....	139	152	128	124
Year.....	143	160	129	128
1958				
1st quarter.....	130	128	125	117
2nd quarter.....	129	125	127	110
3rd quarter.....	140	148	133	120
4th quarter.....	140	150	135	123
Year.....	134	143	130	117
Percent Change				
3rd quarter 1957 to April 1958.....	-13	-39	-5	-15
April 1958 to December 1958.....	13	16	9	12
1957 to 1958.....	-8	-11	.....	-9

Source: Board of Governors of the Federal Reserve System.

February, the output rate climbed to around 85 percent of capacity.

For nonferrous metals, supplies in 1958 were also well below the previous year, reflecting both production cutbacks and a somewhat lower volume of imports. The reductions in refinery operations were relatively moderate for copper and aluminum—less than 10 percent—and more pronounced for lead and zinc. In general, the low point in output of these metals was reached in the summer months—somewhat later than for steel. In the fourth quarter, production advanced considerably, particularly for copper and aluminum with the industry turning out record quantities.

Refined copper moved toward a favorable supply-demand position as the strong fourth quarter shipments enabled producers to cut stocks to 81,000 by the yearend from 181,000 tons at the start of 1958. In contrast, producers' inventories of lead, zinc, and aluminum were still relatively high in relation to current shipments.

Government takings of nonferrous metals for the national stockpile continued in 1958. Deliveries last year as compared with 1957 were somewhat higher for copper—largely because of the relatively low prices prevailing during most of the year—about the same for aluminum, and considerably smaller for lead and zinc as purchase contracts for these two metals terminated in the first half of the year.

### *Producers' durables*

The extent of the decline and subsequent recovery in output of producers' durables is evident from the chart. This group of industries, together with primary metals, was particularly affected by the inventory adjustment and the reduced business spending for capital equipment. The 1957-58 decline in activity in the metal fabricating industry as a whole was sharp and at its low point in April was off nearly one-fifth. The subsequent rise in output reflected the upturn in new order placement for both defense and civilian goods. At the yearend, activity in this industry was the highest for the year, up one-eighth from April and a recovery of over half the earlier decline.

For the year as a whole, however, activity in the metal working industries was 12 percent below the record volume of the previous year. Year-to-year production decreases were registered for most types of producers' durables, with especially large reductions reported for machine tools, some types of industrial machinery, power and mining equipment, oil-field and gas drilling, railroad equipment, and trucks and truck trailers. Lesser declines were shown for construction machinery, scientific and industrial instruments, and air-conditioning equipment. Notable departures from the general downward trend were agricultural machinery, electronic computers and recorders, and other electronic equipment for military and industrial use.

Both shipments of and new orders for machine tools dropped to the lowest dollar amount in nearly a decade before turning upward in the final quarter of 1958. Last year's shipments of machine tools totaled \$520 million, less than half as much as in 1957. New orders for the year were \$370 million, or about three-fifths of the 1957 and one-third of the high 1956 volume.

Output of nonautomotive transportation equipment was in reduced volume through the summer months of 1958 and recovered partially thereafter. For the year, activity in aircraft plants, influenced to a considerable extent by the shift in emphasis from manned aircraft to missiles and other rocketry development work, declined moderately while work in shipbuilding yards was maintained at approximately the 1957 rate. Freight car builders cut back operations sharply, however, in line with the low volume of new order placement though some pickup was noticeable in the closing months of the year.

### *Decline and recovery in autos*

Assemblies of autos totaled 5.1 million units—4.2 million passenger cars and 872 thousand trucks—nearly one-third below 1957 and the lowest since 1947. Passenger car production cutbacks began early in the year coinciding with the drop in demand, and the curtailment continued into the third quarter when operations are normally reduced for model changeovers.

Production of the 1959 models did not reach volume proportions until the final 2 months of the year. December assemblies of close to 600,000 units—an annual rate of about 7.2 million—were the highest for the year and well above the same month of 1957.

A feature of the domestic passenger car market in 1958 was the volume sales of imported foreign cars. Deliveries to consumers totaled around 380,000 units, nearly double the 1957 volume, and accounted for roughly 8 percent of the total U.S. car market. In contrast, sales of domestically produced cars declined nearly one-third. Total imports of cars and trucks exceeded U.S. shipments abroad for the first time on record.

### *Expansion of household durables*

Consumer expenditures for household consumer durable goods in 1958 were only fractionally below 1957. Production reached a low in April and recovered rapidly thereafter with the rate of operations towards the end of the year the highest for any month since early 1956. All of the major items shared in the advance. Output of furniture and floor coverings and major appliances was at a record rate and the number of radios and television receivers turned out, although up from the spring months, was still considerably below previous highs.

Year-to-year changes in production of individual consumer durable goods were mixed. In general, increases predominated particularly for the relatively newer products; in other lines the decreases were moderate except for radios and television receivers. Despite the strong fourth quarter output performance, yearend stocks of most major household appliances were well below those of a year ago.

### *Records nondurables output*

Output of nondurable goods industries, much less affected by the business contraction, turned upward in April, surpassed the prerecession level as early as July, and then continued to advance steadily to a new high in December when production was 10 percent above the spring low mark. All of the major groups shared in the recovery and most registered rapid and substantial advances, with yearend output at new or close to earlier highs. New production peaks were experienced for food and tobacco manufactures. In most other soft goods lines output in 1958 was about as high, or only moderately below, the record 1957 volume.

## *Construction Activity*

Construction has been a strong element in the recent rising phase of the current business cycle. This results from the continuing upsurge of residential construction with public construction also contributing to the increase. Construction of new plant and other nonresidential facilities remains on a much-reduced scale.

After allowing for the usual seasonal movements total activity declined until the middle of the second quarter but

recovered rapidly thereafter. By the closing months of 1958 the seasonally adjusted annual rate of expenditures was running some 7 percent higher than the total for the year as a whole, and the same relative amount above a year earlier.

Construction costs continued to rise; the Department of Commerce composite index of costs in 1958 averaged almost 2 percent higher than in 1957. Last year's price rise contrasts with increases of 4 and 6 percent in the 2 preceding years, when overall demand pressure was considerably greater.

### Advance in residential outlays

Last year witnessed an extension of the recovery in private residential expenditures that started in the second quarter of 1957. Outlays for the year as a whole rose nearly \$1 billion to about \$18 billion, a total exceeded only in 1955. The rise reflected largely an increase in physical volume. New nonfarm privately financed housing starts totaled more than 1.1 million, one-eighth more than were begun in 1957.

The course of housing activity through the year provided an important stimulus to the recovery in total output that began in the late spring. Although builders showed some hesitation in starting new houses in the first quarter—apparently under the influence of the sharp cutbacks in employment and output that were occurring—the seasonally adjusted rate of private starts increased steadily after March and by yearend had reached an annual rate in excess of 1.4 million. Expenditures, after some slackening in the spring, rose to a seasonally adjusted annual rate of more than \$20 billion in the last two months of the year.

Last year saw a postwar record in the number of multifamily units started—a continuation of the rise in this type of construction that began in late 1956. Average unit costs of one family houses was lower last year, largely because of an increase in the proportion of starts in the South and West, where houses are relatively smaller and less expensive.

### Rise in Government-assisted starts

As in prior years, conditions in the money markets exerted a strong effect of countercyclical nature on units started with the assistance of Government-underwritten home mortgages. With demands for investment funds reduced because of the decline in plant and equipment expenditures and the widespread liquidation in business inventories, lenders turned increasingly to home mortgages as a profitable outlet for loanable funds.

This development was abetted in particular by the passage of new Federal housing legislation in the spring and the issuance of new regulations by Federal housing agencies. The purpose of these actions was to make government-backed home mortgages more attractive to lenders (via higher interest rates and support of secondary mortgage market operations) and to home purchasers (through lower downpayment requirements).

As the bottom panel of the accompanying chart shows, starts of conventionally financed units—which have typically been relatively sluggish—were little changed from the previous year. On the other hand, there was a sizable advance in the government-aided portion, reflecting a very strong upsurge in starts under FHA programs. The 295,000 units started with FHA help was the highest since 1950 and represented a 75 percent increase over 1957, which was the lowest FHA year in more than a decade. For 1958 as a whole, starts under the VA program dropped for the third year in a row to the lowest point since the very early postwar period.

The statutory rise in the VA interest rate from 4½ to 4%

percent and the FNMA support program, however, did stimulate lenders' interest in the sagging VA program, and appraisal requests for VA homes showed a pronounced improvement starting in the second quarter of the year, followed by a pickup in starts in the second half.

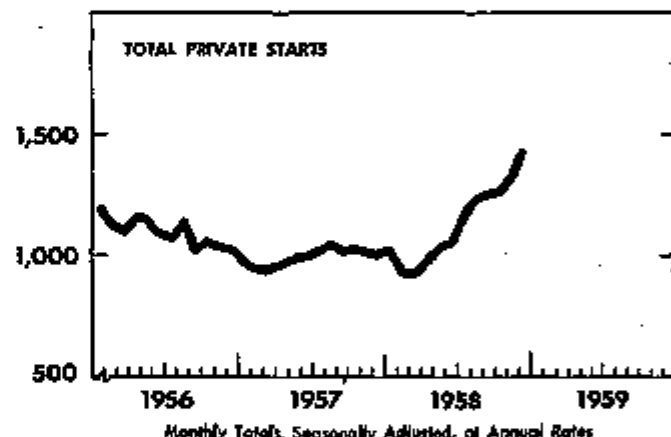
### Nonresidential construction lower

After rising to a new high in 1957 private construction other than residential declined by almost \$1 billion, or 5 percent, in 1958. This was the largest decrease in this category in the postwar period and the first to occur since 1949.

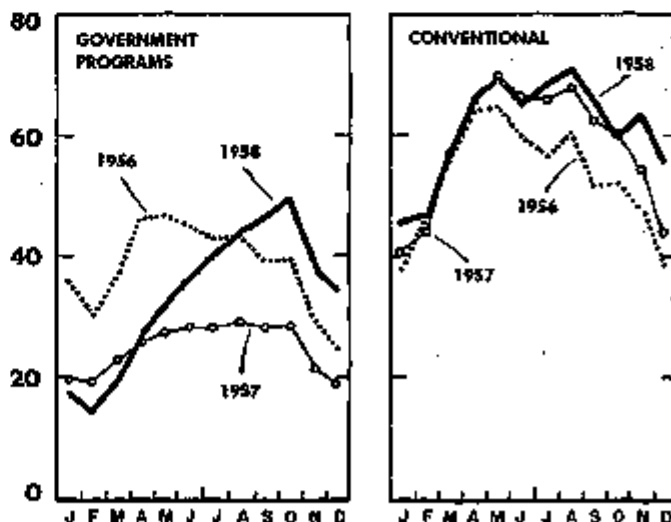
Most of the decrease centered in industrial construction, which had been in the forefront of the capital goods boom of 1955-57. Seasonally adjusted expenditures in this group peaked in the second quarter of 1957 and declined steadily through the third quarter of 1958. With the recovery in the demand for industrial products there was some evidence of a leveling out in these expenditures in the final quarter of the year but at a rate more than 45 percent below the previous peak.

## Housing Starts

Thousands



Thousands



Source: BLS, FHA & VA

U. S. Department of Commerce, Office of Business Economics

59-2-9

Spending for commercial building was little changed from 1957 and in aggregate has shown comparative stability since 1956. Office building and warehouse construction rose about 5 percent but showed signs of receding toward the latter part of the year. On the other hand it appeared that the two-year decline in store construction had come to a halt. Although outlays for the year as a whole were 6 percent below those for 1957, seasonally adjusted spending for stores rose steadily after the first quarter. The recovery here may represent in part a somewhat delayed reaction to the improvement in housing starts that began in 1957.

Construction by public utilities in 1958 fell very slightly. Sizable cutbacks by the railroads and communications firms more than offset the increase by electric and gas utilities. Other nonfarm spending—with a 10 percent gain over 1957—continued the fairly steady growth that has characterized postwar additions to institutional, service, and recreational facilities.

### Record public construction

Public construction totaled \$15 billion last year. The increase of \$1 billion over 1957 was about equal to the rise that occurred in each of the 2 preceding years. There was a large increase in residential properties, decreases for industrial and military installations, and small or moderate increases in most other types of construction.

Although the year-to-year advance in public outlays was of modest proportions, there were numerous signs during the year of a step-up in the tempo of such construction. Contract awards in 1958, reflecting new work started, rose 20 percent above the previous year. The seasonally adjusted rate of expenditures, which was slightly downward in the first two quarters of the year, recovered in the summer months and by the final quarter of the year was running 10 percent above the average for the year.

Highway expenditures, which account for more than one-third of the public construction total, rose about \$0.4 billion in 1958. This was attributable primarily to construction under the new Federal Interstate Highway program, and to a lesser extent to county and urban road construction. The States, however, have been cutting back very substantially on toll roads, and have been making only small increases in outlays under the older Federal-aid highway program. It is these developments which have limited the net increase in aggregate highway outlays in the past 2 years to comparatively modest amounts despite the initiation of the large interstate program in mid-1956. The stepped-up activity of the new program was reflected in the fourth quarter 1958 outlays for all highways, which were 11 percent above the final quarter of 1957.

Public educational facilities, the second most important category of public construction, continued the steady postwar growth to total \$2.9 billion in 1958. The rise over 1957 was not so large as in other years of the postwar period. Spending on sewer and water systems also showed a small increase.

Although expenditures for military and industrial facilities declined, the Federal Government instituted a speed-up in contract awards in this area, which was reflected in increased spending later in the year.

Expenditures for publicly financed housing increased by almost two-thirds over 1957 to a postwar record; the 67,000 units started in 1958 was second only to 1951. The increase over 1957 was about equally divided between low-rent public housing and publicly financed units for armed service personnel.

## Agriculture

The year 1958 was one of general expansion in most phases of agriculture, with crop production more than one-tenth above the high plateau of other recent years. Cash receipts from marketings rose to the high range of several years ago, and net income of farm operators recorded a significant advance. Enlarged price support by the Federal Government was a factor in the income advance.

Although there is a strong secular rise in crop yields, the principal influence boosting production in 1958 was good weather—the best in a decade. With the growing feed stocks, accumulated in recent years, farmers have also begun to expand poultry and livestock herds, so that a rise in livestock numbers—but not yet in marketings—contributed to the advance in total farm output.

For crops, the rise in production in 1958 was quite general, and it followed a decade during which there had been relatively little change in production. Thus crop output in 1957 was only 6 percent above the 1947-49 average, whereas in 1958 it was 18 percent higher. With the enlarged production, crop prices eased in the latter part of the year during the harvest season, but the decline only about offset the strengthening in the early months of the year, so that crop prices averaged about as high at the end of the year as at the beginning. The chief impact of the bumper crop was on Government expenditure for price support. Through December 31, total price support extended on 1958 crops totaled \$2.7 billion, more than double the support extended on the 1957 crop on the comparable date. Two-thirds of the total consisted of loans made on wheat and cotton. Corn loans on the record crop were reaching volume proportion at the yearend.

The cotton crop was below average in 1958, but about 60 percent of it was placed under loan with the CCC. The high proportion going to the Government reflected an increase in the support price for the 1958 crop together with lower prices for 1959. The higher U.S. support price for 1958 resulted from the influence of an earlier reduction in carryover of U.S. cotton on the formula used to determine the level of price support together with some increase in parity.

Table 3.—Farm Gross National Product

	[Billions of dollars]									
	Current dollars					Constant 1954 dollars				
	1954	1955	1956	1957	1958	1954	1955	1956	1957	1958
1. Total value of farm output.....	34.1	33.4	33.6	34.1	37.9	34.1	33.5	33.3	33.9	37.2
2. Less: Value of intermediate products consumed, total.....	13.7	13.7	14.1	14.7	15.7	13.7	14.0	14.7	15.0	15.6
3. Equals: Farm gross national product.....	20.3	19.6	19.4	19.3	22.2	20.3	21.4	21.5	20.8	22.2

Source: U.S. Department of Commerce, Office of Business Economics, based largely upon data from U.S. Department of Agriculture.

Domestic consumption of U.S. cotton in the crop year beginning August 1 has been running slightly ahead of a year earlier, but exports have declined. Total disappearance of U.S. cotton during the current crop year is estimated to be about equal to the 11.5 million bales harvested in 1958. Outside the United States, however, consumption is lagging and production increased in 1958, resulting in an increase in foreign supplies.

The Agricultural Act of 1958 liberalizes acreage allotments for 1959 and 1960 for U.S. cotton producers who are willing to accept a lower support price, and provides for a reduction

in the domestic sale price of cotton. In addition, the export sale price is lowered by an increase in the export subsidy.

Wheat production in 1958 was nearly 1.5 billion bushels, up 50 percent from other recent years during which carryovers had been gradually reduced to below 1 billion bushels. Most of the rise in wheat production in 1958 over the preceding year was in the winter wheat area, where increases in acreage and in yield per acre were both substantial. The new crop seeded in the fall of 1958 to be harvested this year has about the same acreage as that harvested last year, but yield prospects were less favorable (January 1959) than a year earlier.

The feed grain situation has been in greater disequilibrium for a longer period of time than has either the cotton or wheat market. In contrast with cotton, where supplies had declined in recent years and production was below average, and with wheat where the rise in surplus was due to the single

Table 9.—Farm Production

(1947-49=100)

	1950	1951	1952	1953	1954	1955	1956	1957	1958*
Farm output.....	100	100	107	106	106	112	112	113	123
All livestock and products.....	107	112	112	114	117	120	122	121	124
Meat animals.....	109	117	117	116	121	127	128	129	128
Dairy products.....	101	100	100	105	107	106	110	111	111
Poultry and eggs.....	111	116	117	120	125	123	126	127	124
All crops.....	97	99	103	103	101	105	106	106	118

\* Preliminary.

Source: U.S. Department of Agriculture, Agricultural Research Service.

bumper crop in 1958, feed production has been in excess of consumption for several years. Moreover, the margin has increased in the past 2 years. In the period 1952-56, from 4 to 5 percent of production was added to carryover each year. In 1957 the proportion not utilized rose to 7 percent and for the 1958 crop the estimate is nearly 10 percent. As in other recent years most of the increase in carryover is expected to be in Government stocks. The quantity of feed grains carried over outside the price support programs has been rather stable for the past few years.

Acreage restrictions on corn plantings ended with the 1958 crop. Late in the year in a referendum corn producers ratified the provision of the Agricultural Act of 1958 for a new corn program without controls. Price supports for all producers will be available at 90 percent of the average price received by producers for the three preceding calendar years, but not less than 65 percent of parity. The national average support price for the 1959 corn crop is estimated to be around \$1.12 to \$1.15 per bushel as compared with the average for the 1958 crop of \$1.36 for compliance loans and \$1.06 for noncompliance loans in the commercial corn area.

Favorable feed-livestock price ratios have brought an increase in feed utilization, and a rise in the number of livestock and poultry on farms was a prominent feature of 1958. The volatile poultry industry showed a considerable expansion during 1958 and prices dropped sharply during the latter part of the year. Broiler production for the year was up about 15 percent from 1957. Egg production was below a year earlier in the first half of the year, but rose above the year-ago rate late in the year. At yearend egg prices had declined and feed prices were up but farmers reported intentions to raise almost as many replacement chickens in 1959 as last year, and egg production will continue high.

Mention has already been made of the expansionary trend in livestock numbers during 1958. In the early stage of such expansion, however, meat animals marketings showed little

or no increase. During most of 1958, meat production continued the decline which had been a significant feature of 1957 and prices were the highest in a number of years. Toward the yearend, meat production showed some expansion, aside from seasonal influences, chiefly because of increased marketing weights of animals slaughtered. The principal increase was in pork as the larger crop of pigs farrowed in the spring moved slowly to market. Farrowings were up again in the fall and intentions to farrow in the spring of 1959 show a further rise, so that the upward trend in pork production which was barely visible at the end of 1958 is expected to provide a substantial rise in pork supplies during the current year.

Fed cattle slaughter also showed some rise in the late months of 1958 making up for the light marketings of range cattle as producers held back stock in order to expand herds. Prospects at yearend were for continued heavy marketings of fed cattle for a few months and relatively light marketings of grass cattle for a considerable period. Because of the relatively long life cycle for cattle, no appreciable increase in the number slaughtered is expected in 1959.

Milk production in 1958 was little changed from the preceding year, and prices received averaged slightly lower reflecting reduced support prices for manufactured dairy products. This was one of the few areas in which the gap between production and consumption was narrowed. A smaller quantity of dairy products, especially cheese, was purchased by the CCC for price support purposes in 1958 than a year earlier.

Preliminary estimates of farm gross national product show a large increase in 1958 following a period of a few years of little change. In constant (1954) dollars the estimate of \$22.2 billion is up 7 percent from 1957. The work force on farms shows a nearly comparable decline, so that the output per farm worker is up substantially. During the past 3 decades Farm GNP per worker has risen at an average annual rate of 3 percent, appreciably higher than in the nonfarm sector.

## Retail Sales

By the early fall of 1958, retail sales had recovered all of the moderate decline that occurred between the peak of the summer of 1957 and the low reached in February-March 1958. At yearend, sales established a new high.

For the year as a whole, sales of \$200 billion were about the same as in 1957. Since prices at retail were up on the average 2 percent, the volume of sales was correspondingly less.

The strength of consumer buying was an important factor in the shortness of the business decline. Consumer purchasing as pointed out in an earlier section, was a stabilizing influence. Consumers were willing to purchase in line with their incomes, with the rise in transfer payments counterbalancing to a considerable degree a lessened willingness to take on additional consumer debt. This was a characteristic of the 1957-58 recession as it has been in other periods of declining economic activity.

As compared to the pattern in the two previous postwar cycles, however, the behavior of sales, except at the very close of 1958, was somewhat less favorable—a development traceable in part at least to the larger stock of automobiles in use now than at these earlier periods.

## Durable sales recover

The strengthening of demand occurred in all lines of retailing, with the notable exception of the automotive group. With lower automobile demand, durable goods store sales as a whole remained well below the previous year's figures until the last quarter of the year. Then the pickup in sales of 1959 model cars was instrumental in bringing the durables



Table 10.—Sales of Retail Stores by Kind of Business 1955-58  
(Billions of dollars)

	1955	1956	1957	1958	Seasonally adjusted quarters of annual rates			
					1958			
					I	II	III	IV
All retail stores.....	183.9	189.7	200.9	200.3	189.5	190.6	200.6	200.9
Durable goods stores <sup>1</sup> .....	67.0	65.8	68.5	63.4	62.4	62.2	62.1	63.9
Automotive group.....	38.2	38.1	38.0	33.9	34.9	33.5	32.4	35.9
Furniture and appliance group.....	10.1	10.7	10.6	10.3	10.4	10.0	10.4	10.5
Lumber, building, hardware group.....	11.0	11.2	10.7	10.8	10.2	10.7	11.0	11.2
Nondurable goods stores <sup>1</sup> .....	116.9	123.9	131.5	136.9	133.0	135.4	138.5	137.1
Apparel group.....	10.8	11.0	12.3	12.6	12.2	12.5	12.8	12.8
Drug and proprietary stores.....	5.2	5.8	5.8	6.0	6.5	6.4	6.6	6.5
Eating and drinking places.....	13.7	14.3	14.9	14.9	14.5	14.9	14.9	14.9
Food group.....	42.0	44.2	47.8	50.3	49.8	50.6	50.2	50.9
Gasoline service stations.....	12.4	13.7	15.1	15.5	15.4	15.4	15.9	16.2
General merchandise group.....	20.1	20.8	21.2	21.7	20.9	21.4	22.6	22.9

1. Totals include lines of trade not shown separately.

Source: U.S. Department of Commerce, Bureau of the Census and Office of Business Economics.

for the fourth quarter of 1958 to a volume closer to the figure for the corresponding quarter in 1957.

New car deliveries in 1958 were a fourth less than in 1957, but other sales in the automotive group held up much better. With higher automobile prices, relatively smaller reductions in sales of used cars, trucks and accessories, and improved receipts from services, the automotive group recorded a sales decline of one-eighth from 1957. In the fourth quarter of 1958 sales climbed to within 5 percent of the corresponding quarter of 1957.

Sales at furniture and appliance and at lumber-building-hardware stores fell off after the third quarter of 1957. As employment conditions brightened and residential construction activity rose substantially, trade in these groups also showed improvement. Thus, by the yearend, sales at lumber, building material and hardware stores had recovered to prerecession levels.

### Nondurables reach new highs

Nondurable store sales showed only a minor reaction to the 1957-58 business decline. Seasonally adjusted sales in the first quarter of 1958 were only a little more than 1 percent off from the third quarter of 1957. Thereafter sales tended generally upward.

The trends for individual lines of trade were influenced in varying degrees by the changing pattern of overall business activity, although the amplitude of change was less than in durable goods. Food store sales, which constitute more than a third of the sales of all nondurable goods stores, tended to move generally upward during the first half of the year showing little effect of the downturn experienced in general business activity. The rise in dollar volume of food store sales slackened somewhat in the second half of the year, largely a result of some lowering of prices. On a physical volume basis food store sales moved generally upward throughout the year.

At apparel and general merchandise stores and eating and drinking places, sales moved downward significantly after the third quarter of 1957 but strengthened after the low first quarter. The largest swing during this cycle of activity was shown for the general merchandise group reflecting, in part, the greater volatility of hard-goods lines sold at department and variety stores. New orders placed by department stores in the first 3 months of the year were 6 to 10 percent lower than the previous year but strengthened thereafter; both sales and orders placement were well above year-ago figures in the final months of the year.

Gasoline service station receipts, after a brief decline in the fourth quarter of 1957, rose to new highs in 1958. Demand for motor fuel and services at such establishments depends only in part on sales of new cars and the volume of business has steadily increased with the growth in motor vehicle registrations.

Sales at drug stores showed a somewhat different pattern. The peak of activity was actually reached in October 1957 during the height of the influenza epidemic; sales fell off somewhat from the October peak at yearend. Reflecting, in part, the continued increases in prescription volume and that of related health aids, drug store sales in the fourth quarter of 1958 exceeded somewhat the high quarter of 1957.

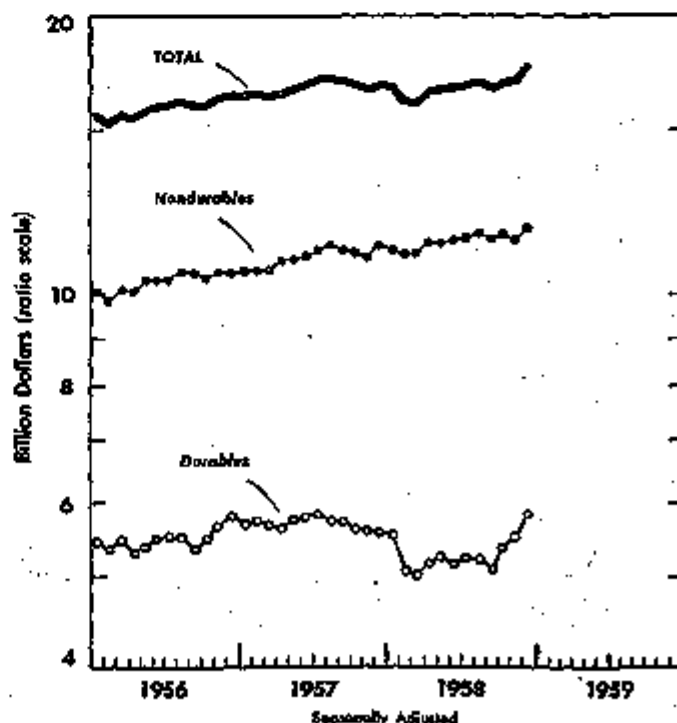
### Chain stores better their positions

Over the past year chain stores have tended to improve their relative position in total sales in those lines where they account for a significant portion of the market. Sales of chain stores generally fall relatively less or rose more than did those of nonchains during both the deflationary and expansionary periods in the past year.

With few exceptions—such as lumber and building materials—the gain in market penetration by the chains is a continuation of the trend in recent years. This has been especially true in the grocery, drug, and furniture-home appliance fields. In the grocery trade the steady development of supermarkets, mostly under chain control, and the mergers of small with large chains have led to a continuous rise in the proportion of grocery business done by organizations with 11 or more retail outlets. From 38 percent of total sales in 1954, the ratio has risen to 42 percent in the current period.

### Sales of Retail Stores

- ★ Durable goods dropped, but recovered towards yearend
- ★★ Nondurable goods held up in recession period



U. S. Department of Commerce, Office of Business Economics

59-2-10



# Foreign Business and Investment

**OUR** INTERNATIONAL trade and investments underwent major changes last year, with foreign transactions in 1958 resulting in an excess of payments to foreign countries of about \$3.3 billion. In 1957, we had net receipts of about half a billion.

The major reason for this change was the decline in merchandise exports from \$19.3 billion to \$16.2 billion. After reaching this annual rate in the first quarter of 1958, exports held steady for the remainder of the year. Transactions involving payments abroad, including merchandise imports and capital outflows, changed relatively little from 1957 and thus, in the aggregate at least, did not reflect the fluctuations in domestic business activity which took place during the year.

The change to an excess of payments in our international transactions was not a new development. Rather, it represented a return to the balance we had experienced with a short interruption since 1950. The excess of payments, however, was more than twice the average during the years 1950-56 and almost as large as in 1950 when international business was under the influence of such extraordinary events, as the devaluations of the major European currencies during the second half of 1949 and the outbreak of Korean hostilities in mid-1950.

## *Nature and size of net payments*

About \$2.3 billion of the net payments of \$3.3 billion in 1958 was made in gold. The gold outflow was considerably larger than in 1950, and, in fact, was the highest on record for a single year.

During the years 1952-56 which, except for the last months were relatively free of international developments creating major disturbances in our foreign transactions, the excess of our foreign payments averaged about \$1.4 billion per year. Together with purchases of newly mined gold, these net payments enabled foreign countries as a whole to raise their gold and liquid dollar resources by an amount sufficient to facilitate the growth in international trade which took place during that period.

The excess of payments at that time and of that magnitude was, therefore, beneficial to the world economy and indirectly to the United States.

The rise in our exports of goods and services by about \$3.6 billion per year between that period and 1958 was more than needed to match the \$3.3 billion rise in our imports but not enough to balance also the additional dollar outflow through other transactions, particularly private investments and credits.

To some extent the rise in net payments in our foreign transactions from the 1952-56 period was due to circumstances which are likely to be of relatively short duration, but more basic developments may also have been responsible.

## *Exports lowered by slower business abroad*

The fact that United States exports in 1958 did not achieve a better balance with the current dollar outflow was in part due to a temporary cessation in the expansion of European economies, and the development of excess capacities abroad

in basic industries such as coal mining, steel production, and cotton textiles which affected a large segment of United States exports.

The easier supply conditions in Europe which enhanced the competitive position of European industry, and reduced European imports from other raw material producing areas may, indirectly, have affected United States exports to these areas as well.

Also important were the recessions in Canada and Japan which reduced our exports to these countries considerably more than the curtailment of our imports from them with lower business activity here.

Just as in the United States, the slowdown in business activity abroad—or at least in the rate of economic growth—affected primarily the demand for capital goods. In many countries consumer demand was well maintained or continued to rise. In Canada, the demand for consumer durables followed a pattern similar to that as in the United States, but the swings were less wide than here. In Europe, the rising output of consumer durables, particularly automobiles, was one of the major factors contributing to economic stability.

While American industry was adversely affected by the world-wide decline in the demand for capital goods, and the growing competition in this field from other countries, it did not generally benefit from the expanding markets for consumer goods abroad. In part this may be attributed to foreign restrictions on imports of consumer goods imposed in earlier years when the use of dollar exchange for imports of capital goods or important raw materials, or for the build-up of reserves, had higher priority.

Another temporary factor was the decline in incomes on direct foreign investments in 1958 which were about \$200 million lower than in the previous year although the value of foreign investments from which the income was derived was substantially higher. The decline reflected the weakening of markets for petroleum, metals, and other industrial materials. (The effects of the recent tax increase in Venezuela are not yet reflected in these figures.) As business conditions here and abroad improve receipts from that source should be expected to rise again.

## *Food imports add to dollar outflow*

Other factors which may be considered temporary contributed to the rise in net payments by raising our imports. Among these were the declines in the domestic output of certain foodstuffs, including meat, fish, sugar, and certain vegetables. During the first 10 months of 1958 the increase in such imports over the corresponding period of 1957 was about \$260 million and thus offset to some extent the decline in those imports which are more sensitive to changes in domestic production. However, a large part of the food imports came from countries which spent their current dollar earnings rather than increase their reserves. The additional expenditures in these countries probably kept United States exports higher than they would have been in their absence, and to that extent did not contribute to the imbalance in our overall foreign transactions.

### Shifts in capital outflow

The outflow of private capital was about \$2.7 billion in 1958, about \$500 million less than in 1957 but nearly twice as high as the average during 1952-56. In conformance with the change in the demand for capital funds during 1958 both in the United States and abroad consisting of a decline in private industrial investments and an increase in public borrowing, direct foreign investments in 1958 were considerably smaller than in 1957 while other capital outflows through new security issues, bank loans, etc. increased. The share of direct investments in the total capital outflow was also considerably less than during the 1952-56 period. This change may have been another factor contributing to the rise in net payments in our international exchange, because direct investments are generally more closely associated with exports than portfolio investments and bank loans.

### Other factors raising net payments

It would be difficult to measure the extent to which these and other relatively temporary factors, associated mainly with transient phases of the business cycle abroad, and with various factors affecting domestic food production, were responsible for the large increase in the imbalance of our foreign transactions. Although they were no doubt—important, more basic developments during the last year may also have contributed to it.

The postwar advance in industrial production abroad in terms of quantity and variation of output as well as in technical standards of the final products and the methods of production has reduced the number of products in which the United States was the only or major producer. Also important was the adaptation by foreign producers of their products, marketing, and servicing techniques to markets outside of their own country including the United States.

In combination with lower labor costs this resulted in intensified competition with United States production, both in our foreign and in domestic markets. When, as was the case last year, supply conditions abroad eased and delivery periods shortened, technological advances and price differences increased in importance in determining the flow of international trade and payments. To some extent this stronger competition of foreign producers is met by United States business by transferring production for foreign markets to foreign subsidiaries or companies associated through licensing or similar agreements.

### Corrective forces

The large excess of payments in our international transactions which developed in 1958 as a result of these and other factors, also creates countervailing forces, which—if permitted to exert themselves—would tend to bring international transactions into better balance.

The rise in foreign gold and dollar assets provides the basis for a resumption of economic expansion abroad and, in fact, in most of the industrially advanced countries business activity during the last months of 1958 had again an upward slant. The markets for many internationally traded raw materials have strengthened, and continuation of this trend should be reflected in higher purchases by the producing countries. This should stimulate our exports to these countries.

Exports to the industrial countries of Europe, which in recent years supplied to a large extent the marginal demands of that area, are still adversely affected by surplus stocks and production capacity in the coal and steel industries, and by low production of cotton textiles. A resumption of exports of these products which were most affected by the decline between 1957 and 1958 may not be expected until business activity in Europe has reached much higher levels.

The rise in foreign reserves in past years, however, has materially contributed to the relaxation of foreign restrictions of imports from the dollar area, imposed after the war to conserve scarce dollar exchange for essential purchases or to build up exhausted reserves. The large rise in foreign reserves in 1958 made possible a further relaxation of import restriction by the United Kingdom announced at the Mont-real conference last fall, the establishment, at the end of the year, of official convertibility of all major European currencies for nonresidents, and the termination of the European Payments Union with its compulsory credit provisions resulting in preferential treatment of trade among its members.

These and various other measures will reduce discrimination against imports from the United States both by European and other countries. Further steps in this direction should be possible, however, particularly with respect to consumer goods, as foreign dollar reserves continue to rise and discrimination against expenditures in the United States lose their economic justification.

At the same time, the excess of United States payments has also repercussions on United States business which may strengthen corrective forces at home. The rise in interest rates which occurred here in recent weeks is likely to reduce the outflow of loan capital, and induce foreign countries to keep liquid funds here. Increased competition from abroad may stimulate innovations in our industry and thus strengthen its competitive position abroad as well as in domestic markets.

Although some of these forces may take time to become effective, the balance of payments problem is comparatively moderate. Some increase in foreign dollar holdings is probably still desirable to facilitate a normal rise in international trade and the adjustments in our international transactions have to reduce net payments only to that point.

Table 11.—The Balance of International Payments 1952-56, 1957 and 1958

(Billions of dollars)			
	Annual average 1952-56	1957	1958*
<b>United States expenditures abroad:</b>			
United States imports.....	17.2	20.7	20.5
Merchandise.....	11.2	13.3	12.8
Services and military purchases.....	5.9	7.4	7.7
Private remittances and pensions.....	.6	.7	.7
Government grants and capital (net).....	2.3	2.6	2.6
United States private capital (net).....	1.5	3.2	2.7
<b>Total.....</b>	<b>21.4</b>	<b>27.3</b>	<b>26.5</b>
<b>Foreign expenditures in the United States:</b>			
United States exports.....	19.2	26.5	22.9
Merchandise.....	14.0	19.2	16.3
Services and military sales.....	5.3	7.2	6.7
Foreign long-term investments in the United States (net).....	.8	.3	—
Transactions unaccounted for (net).....	.6	.9	.3
<b>Total.....</b>	<b>26.3</b>	<b>27.7</b>	<b>23.2</b>
Increase in foreign gold and liquid dollar assets through transactions with the United States.....	1.4	—	2.3
of which: United States sales of gold.....	.2	—	2.3

\* Preliminary.

\* Excluding military supplies and services transferred under aid programs.

Sources: U.S. Department of Commerce, Office of Business Economics.

(Continued from page 18)

Table I-11.—National Income by Industry Division, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
All industries, total.....	364.9	369.5	368.7	361.5	358.7	363.9	364.3	n.a.
Agriculture, forestry, and fisheries.....	16.2	18.9	16.5	16.1	15.3	16.7	19.0	n.a.
Manufacturing.....	112.5	103.0	113.9	109.2	98.2	98.4	104.2	n.a.
Durable goods industries.....	68.9	60.5	69.8	64.3	58.0	57.8	60.5	n.a.
Non-durable goods industries.....	43.6	42.5	44.1	44.9	40.2	40.6	43.6	n.a.
Wholesale and retail trade.....	56.6	50.2	60.5	59.1	57.8	58.2	60.0	n.a.
Finance, insurance and real estate.....	84.0	85.7	85.2	85.6	85.2	85.5	85.7	n.a.
Transportation.....	17.3	15.9	17.6	18.8	16.2	16.6	18.5	n.a.
Communication and public utilities.....	18.3	14.1	23.4	12.6	12.7	14.0	14.2	n.a.
Services.....	39.4	40.8	39.9	40.0	40.1	40.3	40.8	n.a.
Government and government enterprises.....	42.9	45.9	43.3	43.4	44.6	45.4	45.9	n.a.
Other.....	28.1	28.9	28.6	27.7	26.4	26.6	27.3	n.a.

n.a.—Not available.

Table I-14.—National Income by Corporate and Noncorporate Form of Organization, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
National income.....	364.9	369.5	368.7	361.5	358.7	363.9	364.3	n.a.
Income originating in corporate business.....	262.1	262.3	264.8	266.4	265.4	266.1	264.5	n.a.
Compensation of employees.....	181.9	157.7	163.6	161.8	159.7	155.2	158.2	180.6
Wages and salaries.....	150.0	145.9	151.4	149.2	148.0	142.7	146.4	148.5
Supplements to wages and salaries.....	11.9	11.8	12.1	12.1	11.7	11.6	11.9	12.1
Corporate profits and inventory valuation adjustment <sup>1</sup> .....	40.0	34.4	41.1	37.6	29.5	30.6	36.2	n.a.
Profits before tax.....	41.5	34.6	42.1	38.1	29.9	30.1	36.0	n.a.
Profits tax liability.....	21.8	18.6	23.0	19.9	16.1	16.2	19.8	n.a.
Profits after tax.....	19.9	16.0	20.1	18.2	13.7	13.5	16.2	n.a.
Inventory valuation adjustment.....	-1.5	-2.2	-1.1	-1.1	-.3	.5	.2	n.a.
Net interest.....	.2	.2	.2	.2	.2	.2	.2	.3
Income originating outside corporate business.....	102.9	107.2	103.9	95.1	103.2	107.9	109.7	179.7

n.a.—Not available.

<sup>1</sup> Excludes corporate profits originating in the rest of the world sector.

Table II-6.—Personal Consumption Expenditures by Major Type, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Goods and services, total.....	284.4	290.9	288.3	287.3	286.3	288.3	291.5	294.9
Durable goods, total.....	36.9	36.8	46.4	38.5	34.3	35.6	38.1	38.9
Automobiles and parts.....	17.1	14.1	17.3	17.1	13.6	13.5	13.2	15.9
Furniture and household equipment.....	17.2	17.1	17.5	17.0	17.1	16.6	17.3	17.4
Other.....	3.5	5.6	5.6	4.4	3.6	5.5	6.8	5.6
Non-durable goods, total.....	133.0	141.9	140.5	138.5	139.8	141.4	142.9	143.3
Food and beverages.....	74.0	78.3	77.1	76.2	77.5	78.5	78.5	78.6
Clothing and shoes.....	24.6	24.6	25.1	24.4	23.9	24.8	24.8	24.8
Gasoline and oil.....	19.2	19.4	19.3	19.2	19.3	19.3	19.5	19.7
Other.....	27.5	28.7	28.0	26.6	28.1	28.5	28.1	28.2
Services, total.....	106.5	111.9	107.4	106.7	106.1	111.3	112.5	113.6
Housing.....	36.4	37.1	35.7	35.7	36.6	36.9	37.2	37.5
Household operation.....	15.8	16.9	16.8	16.5	16.4	16.7	17.0	17.2
Transportation.....	9.0	9.3	9.2	9.0	9.1	9.1	9.2	9.4
Other.....	45.4	48.7	46.7	47.2	47.9	48.5	48.0	48.6

Table III-3.—Government Receipts and Expenditures, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Federal Government receipts.....	62.5	73.5	63.5	60.6	76.1	76.1	80.2	n.a.
Personal tax and nontax receipts.....	37.4	37.0	37.7	37.5	38.6	38.5	37.6	37.6
Corporate profits tax accruals.....	20.7	17.7	21.0	19.0	15.4	15.6	18.4	n.a.
Indirect business tax and nontax accruals.....	12.2	11.9	12.3	12.0	12.0	11.9	11.7	11.8
Contributions for social insurance.....	12.2	12.8	12.4	12.2	12.1	12.1	12.5	12.4
Federal Government expenditures.....	79.9	67.3	78.9	66.8	62.8	66.0	69.7	91.4
Purchases of goods and services.....	49.4	41.7	49.7	49.1	49.7	50.7	52.2	54.3
Transfer payments.....	17.3	23.2	17.1	18.6	19.6	21.3	22.2	21.8
To persons.....	15.9	20.0	15.9	17.2	18.3	20.3	20.0	20.5
Foreign (net).....	1.5	1.3	1.2	1.4	1.2	1.2	1.2	1.3
Grants-in-aid to State and local governments.....	4.1	6.2	4.9	4.4	4.4	4.8	5.4	6.2
Net interest paid.....	5.6	6.7	6.7	6.7	6.7	6.7	6.6	5.6
Subsidies less current surplus of government enterprises.....	3.1	3.4	3.1	3.1	2.4	3.4	3.4	3.5
Surplus or deficit (—) on income and product account.....	2.9	-8.5	3.4	-2.2	-6.6	-18.0	-8.4	n.a.
State and local government receipts.....	37.3	40.8	38.3	36.5	38.9	39.8	41.2	n.a.
Personal tax and nontax receipts.....	5.4	5.8	6.4	6.5	5.7	5.8	5.9	5.9
Corporate profits tax accruals.....	1.0	.9	1.0	.9	.7	.7	.8	n.a.
Indirect business tax and nontax accruals.....	25.4	26.7	25.6	25.7	26.9	26.4	26.0	27.6
Contributions for social insurance.....	2.0	2.1	2.0	2.0	2.1	2.1	2.2	2.2
Federal grants-in-aid.....	4.1	6.2	4.3	4.4	4.4	4.8	5.4	6.2
State and local government expenditures.....	39.0	42.5	39.9	39.6	41.0	42.1	42.8	45.6
Purchases of goods and services.....	30.2	28.8	30.1	28.6	28.6	30.1	30.9	41.0
Transfer payments to persons.....	4.0	4.8	4.0	4.1	4.3	4.3	4.3	4.4
Net interest paid.....	.5	.5	.5	.8	.6	.6	.6	.8
Less: Current surplus of government enterprises.....	1.8	1.9	1.8	1.8	1.5	1.9	1.9	2.0
Surplus or deficit (—) on income and product account.....	-1.2	-1.7	-.8	-2.1	-2.7	-2.2	-1.6	n.a.

n.a.—Not available.

Table III-4.—Government Receipts and Expenditures, Quarterly, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Federal Government receipts.....	62.5	73.5	26.6	18.3	13.5	28.0	20.1	n.a.
Personal tax and nontax receipts.....	37.4	37.0	9.3	7.8	9.5	9.9	9.4	8.3
Corporate profits tax accruals.....	20.7	17.7	5.2	4.8	3.8	4.0	4.7	n.a.
Indirect business tax and nontax accruals.....	12.2	11.9	3.1	3.1	2.9	3.0	2.9	3.1
Contributions for social insurance.....	12.2	12.8	3.0	2.6	3.3	3.2	3.1	2.7
Federal Government expenditures.....	79.9	67.3	20.0	19.8	20.9	21.8	22.1	22.5
Purchases of goods and services.....	49.4	41.7	12.5	12.2	12.4	12.8	13.1	13.5
Transfer payments.....	17.3	23.2	4.1	4.5	4.1	4.6	4.4	5.3
To persons.....	15.9	20.0	3.9	4.2	4.2	4.6	4.5	4.9
Foreign (net).....	1.5	1.3	.3	.4	.3	.3	.3	.3
Grants-in-aid to State and local governments.....	4.1	6.2	1.1	1.2	1.0	1.1	1.4	1.7
Net interest paid.....	5.6	6.7	1.4	1.4	1.4	1.4	1.4	1.4
Subsidies less current surplus of government enterprises.....	3.1	3.4	.8	.5	.8	1.0	.8	.7
Surplus or deficit (—) on income and product account.....	2.9	-8.5	.6	-1.5	-1.4	-1.7	-2.8	n.a.
State and local government receipts.....	37.3	40.8	9.4	9.7	9.6	10.0	10.3	n.a.
Personal tax and nontax receipts.....	5.4	5.8	1.3	1.2	1.5	1.6	1.4	1.3
Corporate profits tax accruals.....	1.0	.9	.2	.2	.2	.2	.2	n.a.
Indirect business tax and nontax accruals.....	25.4	26.7	6.4	6.6	6.3	6.6	6.8	7.0
Contributions for social insurance.....	2.0	2.1	.6	.5	.8	.5	.5	.6
Federal grants-in-aid.....	4.1	6.2	1.1	1.2	1.0	1.1	1.4	1.7
State and local government expenditures.....	39.0	42.5	10.0	10.3	9.7	10.6	11.0	11.2
Purchases of goods and services.....	30.2	28.8	9.3	9.0	9.0	9.9	10.2	10.6
Transfer payments to persons.....	4.0	4.8	1.0	1.0	1.1	1.1	1.1	1.1
Net interest paid.....	.5	.5	.1	.1	.1	.1	.1	.1
Less: Current surplus of government enterprises.....	1.8	1.9	.5	.5	.5	.5	.5	.5
Surplus or deficit (—) on income and product account.....	-1.2	-1.7	-.4	-.7	-.1	-.5	-.7	n.a.

n.a.—Not available.

Table IV-2.—Foreign Transactions in the National Income Accounts, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Receipts from abroad.....	25.6	22.3	23.0	24.9	21.9	22.4	22.8	22.1
Exports of goods and services.....	26.0	22.3	26.0	24.0	21.0	22.4	22.8	22.1
Payments to abroad.....	26.0	22.3	26.0	24.9	21.9	22.4	22.8	22.1
Imports of goods and services.....	21.0	20.9	21.2	21.6	21.3	20.8	21.2	21.7
Net transfer payments by Government.....	1.5	1.3	1.2	1.4	1.2	1.3	1.2	1.3
Net foreign investment.....	3.6	2	3.6	1.6	.5	.5	.5	-1.0

Table IV-3.—Foreign Transactions in the National Income Accounts, Quarterly, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Receipts from abroad.....	25.6	22.3	6.1	6.4	5.5	5.7	5.4	5.7
Exports of goods and services.....	26.0	22.3	6.1	6.4	5.5	5.7	5.4	5.7
Payments to abroad.....	26.0	22.3	6.1	6.4	5.5	5.7	5.4	5.7
Imports of goods and services.....	21.0	20.9	5.4	5.2	5.0	5.2	5.4	5.3
Net transfer payments by Government.....	1.5	1.3	.8	.4	.2	.3	.2	.8
Net foreign investment.....	3.6	2	.4	.9	.3	.1	-.2	.1

Table V-2.—Sources and Uses of Gross Saving, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Gross private saving.....	65.3	65.0	65.3	64.9	62.3	64.5	68.1	n.a.
Personal saving.....	20.7	21.0	20.4	19.0	19.9	20.7	23.0	19.9
Undistributed corporate profits.....	9.4	5.6	9.4	8.0	7.1	3.3	6.1	n.a.
Corporate inventory valuation adjustment.....	-1.6	-2	-1.1	-1.1	-.3	.5	.2	n.a.
Capital consumption allowances.....	37.7	39.6	38.1	38.5	38.9	39.3	39.7	40.4
Excess of wage accruals over disbursements.....	.0	.0	.0	.0	.8	.8	-1.6	.0
Government surplus on income and product transactions.....	1.7	-10.2	2.8	-2.8	-9.3	-13.1	-10.1	n.a.
Federal.....	2.9	-8.5	3.4	-.9	-8.6	-10.0	-8.0	n.a.
State and local.....	-1.2	-1.7	-.6	-2.1	-2.7	-2.3	-1.6	n.a.
Gross investment.....	68.8	64.6	64.4	61.4	61.2	61.2	66.7	n.a.
Gross private domestic investment.....	65.3	64.4	66.7	61.0	60.6	60.7	61.5	61.0
Net foreign investment.....	3.5	2	3.6	1.9	.5	.5	.5	-1.0
Statistical discrepancy.....	.7	-1.2	.7	.7	-1.5	-1.2	-3.0	n.a.

n.a.—Not available.

Table VI-10.—Corporate Profits (Before Tax) and Inventory Valuation Adjustment, by Broad Industry Groups, Seasonally Adjusted Quarterly Totals at Annual Rates, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
All industries, total.....	41.9	36.2	42.1	38.8	34.3	32.5	38.9	n.a.
Manufacturing.....	21.5	n.a.	21.5	21.5	15.6	15.9	18.7	n.a.
Durable-goods industries.....	13.5	n.a.	14.1	12.1	7.8	7.9	9.7	n.a.
Non-durable-goods industries.....	10.0	n.a.	10.2	9.4	7.8	8.0	10.0	n.a.
Transportation, communications, and public utilities.....	5.6	n.a.	5.7	5.4	6.1	5.4	8.2	n.a.
All other industries.....	12.6	n.a.	13.1	11.9	10.4	11.2	12.1	n.a.

n.a.—Not available.

Table VII-3.—Implicit Price Deflators for Seasonally Adjusted Quarterly Gross National Product or Expenditure, 1957-58

	(Index numbers, 1954=100)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Gross national product.....	105.2	118.7	103.3	109.4	110.2	110.7	100.8	101.1
Personal consumption expendi- tures.....	105.2	107.7	103.7	106.2	107.3	107.5	107.3	107.9
Durable goods.....	104.7	108.5	105.0	106.3	104.5	106.3	105.6	106.4
Non-durable goods.....	104.0	108.3	104.5	104.8	106.3	106.5	106.2	105.8
Services.....	107.1	110.3	107.4	108.4	109.5	110.1	110.5	111.2
Gross private domestic invest- ment.....	112.9	115.0	112.0	114.2	114.7	115.1	114.5	115.5
New construction.....	110.1	111.1	110.9	110.7	111.1	110.4	110.6	112.1
Residential nonfarm.....	110.8	112.9	110.5	117.5	118.2	119.6	118.4	119.5
Other.....	112.9	115.0	112.0	114.2	114.7	115.1	114.5	115.5
Producers' durable equip- ment.....	115.8	118.8	110.3	117.4	118.0	118.8	115.9	119.4
Change in business inven- tories.....								
Net exports of goods and ser- vices.....								
Government purchases of goods and services.....	114.2	116.9	115.4	114.8	116.2	116.7	117.8	117.7
Federal.....	115.5	117.0	117.4	117.4	117.5	117.4	118.5	118.2
State and local.....	112.4	115.0	112.9	113.9	114.8	115.7	115.9	116.8

Table VII-13.—Corporate Profits and Inventory Valuation Adjustment, Quarterly, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Corporate profits and inventory val- uation adjustment.....	41.9	36.2	42.1	38.8	34.3	32.5	38.9	n.a.
Profits before tax.....	43.4	36.4	43.4	40.8	36.8	34.3	40.8	n.a.
Profits tax liability.....	21.0	18.6	21.0	18.6	18.6	18.6	18.6	n.a.
Profits after tax.....	22.8	17.9	22.8	22.2	18.2	15.7	22.2	n.a.
Inventory valuation adjustment.....	-1.5	-2	-1.5	-2	-2	-2	-1	n.a.

n.a.—Not available.

Table II-7.—Personal Consumption Expenditures by Major Type, Quarterly, 1957-58

	(Billions of dollars)							
	1957	1958	1957		1958			
			III	IV	I	II	III	IV
Goods and services, total.....	284.4	290.6	284.4	277.3	268.2	271.4	271.4	273.6
Durable goods, total.....	39.9	38.9	39.9	38.9	38.9	38.9	38.9	38.9
Automobiles and parts.....	17.1	14.1	17.1	14.1	14.1	14.1	14.1	14.1
Furniture and household equipment.....	17.3	17.1	17.3	17.1	17.1	17.1	17.1	17.1
Other.....	5.5	6.6	5.5	6.6	6.6	6.6	6.6	6.6
Non-durable goods, total.....	188.8	141.9	188.8	141.9	141.9	141.9	141.9	141.9
Food and beverages.....	70.6	75.3	70.6	75.3	75.3	75.3	75.3	75.3
Clothing and shoes.....	24.6	24.6	24.6	24.6	24.6	24.6	24.6	24.6
Gasoline and oil.....	10.2	10.4	10.2	10.4	10.4	10.4	10.4	10.4
Other.....	27.6	28.7	27.6	28.7	28.7	28.7	28.7	28.7
Services, total.....	106.5	111.9	106.5	111.9	111.9	111.9	111.9	111.9
Housing.....	35.4	37.1	35.4	37.1	37.1	37.1	37.1	37.1
Household operation.....	15.9	16.0	15.9	16.0	16.0	16.0	16.0	16.0
Transportation.....	9.0	8.2	9.0	8.2	8.2	8.2	8.2	8.2
Other.....	46.4	48.7	46.4	48.7	48.7	48.7	48.7	48.7